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Ideas on Liberty

FEBRUARY 1983

The Armor of Saul

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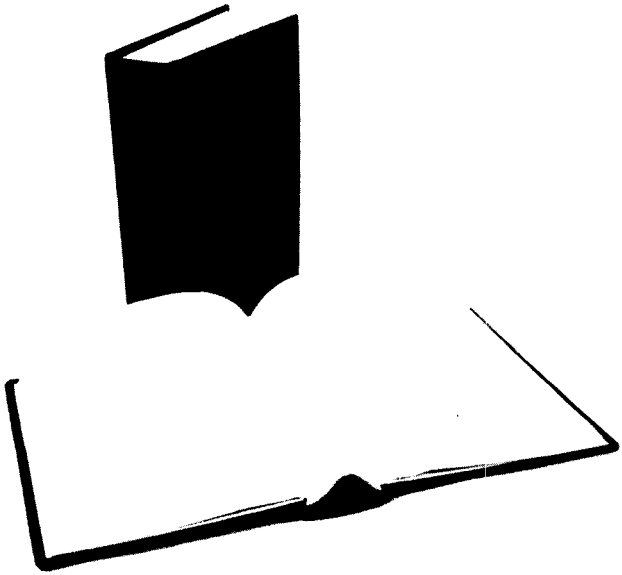

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George Washington on Liberty and Order — **Clarence B. Carson** — 67
A review of the great truths set forth in Washington's Farewell Address.

The World Debt Crisis — **Hans F. Sennholz** — 76
Global inflation creates international enmity and chaos.

The Armor of Saul — **John K. Williams** — 84
The defender of liberty needs no extra burdens to bear.

Market Prices vs. Communist Commands — **Henry Hazlitt** — 93
The communist failures stem from lack of market prices as production guides.

Unions and Violence — **Morgan O. Reynolds** — 98
The economic reasons why unionism is so closely connected with violence.

The Price of Education — **Ernest G. Ross** — 107
If the price is misperceived the product or service may be less than the best.

Thinking About Freedom — **Robert LeFevre** — 113
Some provocative thoughts about the ideal of freedom.

Book Reviews: — 122
"The State Against Blacks" by Walter Williams
"Concentration, Mergers, and Public Policy" by Yale Brozen
"Government's Money Monopoly" edited by Henry Mark Holzer

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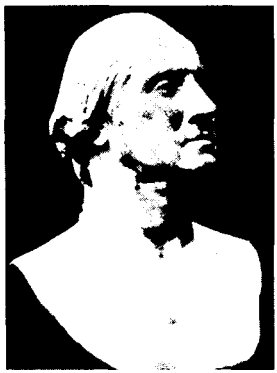
Clarence B. Carson



Sculpture by Houdon

George Washington on Liberty and Order

THERE are truths to which the passage of time and the gaining of new experience add luster and vitality. So it has been, for me at least, with those contained in Washington's Farewell Address. With each new reading of it, I have been impressed anew with the relevance of so much that he had to say to our own time. Often, too, I discover some new theme or emphasis that I had not been aware of earlier. Undoubtedly, these different impressions arise in part from the richness of the material but also may be conditioned by my particular interests at a given time. At any rate, the theme of liberty and order stood out for me in my latest reading of the Farewell Address. It seemed to me that all the parts fitted together into a whole within the framework of this theme.

Before getting into that, however, it may be of some aid to place the address in a much broader historical frame. Some observations about liberty and order more generally will help to set the stage for his remarks.

Thoughtful men may differ about the desirability of liberty, but they rarely do about the necessity for order. Also, nations, kingdoms, and empires have differed much more over the extent of liberty within them than of the degree of order, over long periods of time anyway. They have ranged from the most compulsive tyrannies to ones in which considerable liberty prevails. By contrast, all governments are to a greater or lesser extent devoted to maintaining order. But there are great differences of belief, persuasion and prac-

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tice as to how order is to be maintained and the proper role of government in doing so. It is the differences on this that largely determine the extent of liberty in a country.

There have been, and are, countries in which those in power believe that government must act to impose order in every nook and cranny of society. The active principle in this, if principle it be, is that if government does not impose order then disorder and chaos will prevail. Thomas Hobbes, English philosopher in the seventeenth century, expressed this view with clarity and force. He declared that if men were permitted to act according "to their particular judgments and particular appetites, they can expect thereby no defense, nor protection against a common enemy, nor against the injuries of one another." There must be a power over them, he said, and the way to get that power is "to confer all their power and strength upon one man, or upon one assembly of men, that may reduce all their wills . . . unto one will. . . . For by this authority, given him by every particular man in the commonwealth, he hath the use of so much power and strength conferred on him, that by terror thereof, he is enabled to perform the wills of them all. . . ."

A view similar to this of what was necessary to order and how it could be achieved, as well as the role of government in it, was widespread in Europe in the seventeenth century. It was an age of royal absolutism, of claims about the Divine right of kings, and of the assertion of government power to direct the lives of peoples. England had an established church; no others were tolerated. All were required to attend its services, contribute to its support, and have most of the great events of life celebrated or recorded in it. The church officials censored publications, licensed schools, and kept watch over the doings of the people.

Mercantilism

Economic life was circumscribed and controlled by the government under a system most commonly known as mercantilism. The government controlled exports and imports, gave subsidies, bounties, and grants to encourage certain undertakings, prohibited others, gave patents, charters, and other forms of monopolies to individuals and companies, enforced craft regulations, and maintained much power over the lands of the realm. Harsh penalties were imposed for every sort of offense from blasphemy to treason. Evidence abounded that government was making massive efforts to impose order. As for liberties, they had most commonly to be asserted against the grain of the prevailing system.

So, too, in the twentieth century,

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the dominant view of those in power in many lands is that government must impose an all-encompassing order upon the peoples under its sway. At its farthest reaches, this view achieves its fruition in the totalitarian state, with its direct control over all the media of communication, every aspect of the economy, over education, over such religion as is permitted, over work and over play.

In other lands, where this bent toward state-compelled order has been moderated thus far—has been kept from going so far—it evinces itself in government intervention in the economy, the thrust of regulation into many realms, in redistribution of the wealth, in controls over education, medicine, charity, and hundreds of other areas. The ideologies supporting this pervasive government power differ in many particular respects from those that supported seventeenth-century government power, but the notion that government must impose an order else chaos and disorder will prevail is common to both. Extensive liberty can hardly be reconciled with such compulsive orders.

That George Washington held a view on how to maintain order and the proper role of government in sharp contrast to those described above is manifest in his life and works. Moreover, a seismic change in outlook, both in England and America and over much of Europe, had taken place between the time when Hobbes had penned his *Leviathan* and the founding of the United States. A major aspect of that change was a shift from the emphasis upon a government order imposed on men toward individual liberty and responsibility. The shift sparked in many Americans an awareness of the danger of government both to liberty and to order. At the root of this shift was a different conception of the origin and nature of order.

Belief in a Natural Order

George Washington and his contemporaries were imbued with a strong belief in a natural order. Order, in their view, was not something that could be arbitrarily contrived and imposed by man. The foundations of order, they held, are in the frame of the universe, in the laws that govern it, in the nature of man and his faculty of reason, and in the principles of relationships by which constructive activities can take place. At best, men can only act in accord with and imitate the order that is given.

The belief in a natural law and natural order was not new to the eighteenth century, of course; it had been around since the ancient Greeks and Romans, at least. But it had come to the forefront in the century before the founding of the United States as a result both of vigorous efforts to

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revive it and of many scientific and philosophical formulations of it.

Newton had persuasively set forth in mathematical terms the laws governing the course of the heavenly bodies. Thinkers were getting impressive results in their searches for the laws and principles governing all sorts of relationships. What struck so many in that age was the idea of proportion, balance, harmony, and order resident in the natural tendencies of the world about them. Most marvelous of all, at least to many, this order was consonant with human liberty. Rather than frustrating man in the use of his faculties for his benefit (and for the commonweal as well), the natural order provided means for him to do so most effectively. The foundations of liberty in this belief in a natural order were in the natural rights doctrine.

In his Farewell Address, Washington did not expand upon or elaborate on the theme of liberty. Although the word "liberty" occurs several times in the document, it plays mainly a supportive role in what he has to say. The attachment to liberty is assumed, a given if you will, upon which to hinge his arguments. Washington said as much himself: "Interwoven as is the love of liberty with every ligament of your hearts, no recommendation of mine is necessary to fortify or confirm the attachment." But, he says, from first one angle then another, if you would have liberty you must support those things on which it depends.

For example, in recommending a united support for the general government, he declared: "This Government, the off-spring of our own choice, . . . adopted upon full investigation and mature deliberation, completely free in its principles, in the distribution of its powers, uniting security with energy, and containing within itself a provision for its own amendment, has a just claim to your confidence and support." To clinch the argument, he says that these "are duties enjoined by the fundamental maxims of true liberty." In arguing against the involvement of Americans in foreign intrigues, he says that by doing so "they will avoid the necessity of those overgrown military establishments which, under any form of government, are inauspicious to liberty. . . ."

A Sense of Order

The word "liberty" occurs frequently throughout the address, but by my fairly careful count the word "order" occurs only once. Even that instance is insignificant, however, for the word is used in a phrase, as "in order to" do something or other. It occurs at one other point as part of the word "disorders," which, while more significant, is hardly proof of a theme. Yet a sense of order pervades

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the whole document. It is there in the cadences of the sentences, in the matching of phrase with phrase, in the balance of one tendency against another, in the thrust toward discovering a common bond by piling up references to particular interests. It is clear, if one reads between the lines, that there is an order for men's lives, an order for nations, an order for relations among nations, an order by which parts belong to a whole, and an order by which balance and harmony can be maintained. Government is not the origin of this order, but it is necessary to the maintenance of it, even as it is ever a potential threat to it. Government is made necessary by the bent in man to disrupt order.

The two main sources of disorder to which Washington alludes are these. First, there are those passions in men which incline them to pursue their own particular and partisan designs at the expense of the well-being of others. Washington called it the spirit of party, but we might understand it better as partisanship for causes. (He had in mind the dangers of this to the stability of government, but it does no violence to his idea to apply it to individuals as well as groups.) "This spirit," he said, "unfortunately, is inseparable from our nature, having its roots in the strongest passions of the human mind." Among the dangers of these partisan passions, he declared, are these: "It serves always to distract the public councils and enfeeble the public administration. It agitates the community with ill-founded jealousies and false alarms; kindles the animosity of one part against another; foments occasionally riot and insurrection. It opens the door to foreign influence and corruption. . . . Thus the policy and will of one country are subjected to the policy and will of another."

The other source of disorder, to which Washington alludes, is "that love of power and proneness to abuse it which predominates in the human heart. . . ." It is this power hunger which makes government dangerous, for it prompts those who govern to overstep the bounds of their authority. "The spirit of encroachment," Washington pointed out, "tends to consolidate the powers of all the departments in one, and thus to create, whatever the form of government, a real despotism."

Advice and Counsel

The body of the Farewell Address is devoted to advice and counsel about how to conduct the government so as to maintain order and preserve liberty, and to warnings about holding in check those partisan tendencies and the bent toward consolidating power which endanger them. The following were his main points: (1) Maintain the union; (2) Keep the principles of the Con-

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stitution intact; (3) Preserve national independence; (4) Buttress policy and behavior with religion and morality; (5) Cherish the public credit; and (6) Follow peaceful policies toward all nations. These general principles are not nearly so revealing, however, as his particular recommendations and the arguments he used to support them.

The main device Washington employed to support his advice to maintain the union was to invoke those things the people had in common: the name American, their struggles for independence, their common beliefs, and their common interest. He surveyed the continent, from a mountaintop as it were, and ticked off how north and south, east and west, were bound together.

"The *North,*" he said, "in an unrestrained intercourse with the *South,* protected by the equal laws of a common government, finds in the production of the latter great . . . resources of maritime and commercial enterprise and precious materials of manufacturing industry. The *South,* in the same intercourse . . . sees its agriculture grow and commerce expand. . . . The *East,* in a like intercourse with the *West,* already finds . . . a valuable vent for the commodities which it brings from abroad or manufactures at home. The *West* derives from the *East* supplies requisite to its growth and comfort." This was an economic order which had its roots in the diversities of the regions. Washington warned against the rise of factions seeking to use political power for partisan ends that might disrupt the union and disturb the existing order.

Preserve the Constitution

Washington's concern for preserving the Constitution intact was motivated by the belief that a balance had been incorporated in it, a balance in which the national and state government checked one another, and the branches held one another in check. "The necessity of reciprocal checks in the exercise of political power," he declared, "by dividing and distributing it . . . has been evinced by experiments ancient and modern. . . ." "Liberty itself," he pointed out, "will find in such a government with powers properly distributed and adjusted, its surest guardian." He warned against two things in particular. One was the "spirit of innovation upon its principles." The other was "change by usurpation" of power. That was not to say that the Constitution was perfect as it stood in 1796. But if something needed correction, it should be "by an amendment in the way which the Constitution designates." No man or body of men should assume the power to do so, "for though this in one instance may be the instrument of good, it is the customary weapon by which free governments are destroyed."

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Washington hoped that the United States would follow an independent course in world affairs, that it would lend its weight toward an order in which peace would be the norm, but that it would not become entangled with other nations in the quest for power and dominance. His distrust of government did not end at the water's edge, for he believed that foreign governments would, if they could, use the United States for their own ends. He warned "Against the insidious wiles of foreign influence", for "(I conjure you to believe me, fellow-citizens) the jealousy of a free people ought to be *constantly* awake, since history and experience prove that foreign influence is one of the most baneful foes of republican government." Underlying these fears was the belief that in the nature of things, in the natural order, each nation pursues its own interests. Hence, "There can be no greater error than to expect or calculate upon real favors from nation to nation." He cautioned against constant preference for one nation and opposition to others. "It is our true policy," Washington said, "to steer clear of permanent alliances with any portion of the foreign world. . . ."

Religion and Morality

The first President had some other recommendations on foreign policy, but before discussing them, it would be best, as he did, to refer to the role of religion and morality. The belief in a natural order, the hope that the American political system had been shaped in accord with it, was not sufficient, in Washington's opinion, to assure the working or continuation of order among men. Man is a creature of unruly passions, as already noted, and the necessary corrective to these is religion and morality.

"It is substantially true," Washington commented, "that virtue or morality is a necessary spring of popular government." And, "Of all the dispositions and habits which lead to political prosperity, religion and morality are indispensable supports. In vain would that man claim the tribute of patriotism who should labor to subvert these great pillars of human happiness. . . . A volume could not trace all their connections with private and public felicity." Moreover, "let us with caution indulge the supposition that morality can be maintained without religion."

These remarks preceded both his advice on public credit and on peaceful relations with other nations. On cherishing the public credit, he said: "One method of preserving it is to use it as sparingly as possible. . . " Washington expected that there would be occasions for extraordinary expenses, making war came to mind, when it might be necessary for the government to borrow money.

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But he warned against the "accumulation of debt," declaring that the way to avoid this was "not only by shunning occasions of expense, but by vigorous exertions in time of peace to discharge the debts which unavoidable wars have occasioned." That way, it should be possible to avoid "ungenerously throwing upon posterity the burthen which we ourselves ought to bear." Washington thought his countrymen might be the more inclined to follow these policies if they would keep in mind "that toward the payment of debts there must be revenue; that to have revenue there must be taxes; that no taxes can be devised which are not more or less inconvenient and unpleasant. . . ." Not everyone may find the balanced formulations of eighteenth-century sentences pleasant, but it must be admitted that the logic in the above is impressive.

At any rate, the principles discussed in the above two paragraphs provided the framework for his recommendations for maintaining peaceful relations with other nations. To that end, Washington advised this: "Observe good faith and justice toward all nations. Cultivate peace and harmony with all. Religion and morality enjoin this conduct. And can it be that good policy does not equally enjoin it." Above all, "The great rule of conduct for us in regard to foreign nations is, in extending our commercial relations to have with them as little *political* connection as possible."

Any extended political connections—permanent alliances, for example—could only embroil the United States in the conflicts among other nations. Otherwise, "Harmony, liberal intercourse with all nations are recommended by policy, humanity, and interest. But even our commercial policy should hold an equal and impartial hand, neither seeking nor granting exclusive favors or preferences; consulting the natural course of things; diffusing and diversifying by gentle means the streams of commerce, but forcing nothing. . . ." That is surely the natural order for trade, and a plausible hope for peace to those who knew of, when they had not experienced, the devastating mercantile wars resulting from the use of force in national commerce.

A Farewell Message of Timeless Truths on Liberty and Order

George Washington reckoned that he had devoted the better part of forty-five years to the service of his country when he retired. He was an unabashed patriot, proud to be called an American, a sturdy friend of the union, and none knew better than he the struggles out of which the United States had been born. He was a man of his time, as are all mortal men, spoke in the phraseology of times past, yet in his Farewell Ad-

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dress he touched upon and elaborated some timeless truths. Further experience has served only to confirm the validity of many of his recommendations.

His thoughts on unity, on the love of power, on the impact of partisan strife, on the importance of focusing on our common interests, on avoiding entanglements with other nations, on religion and morality, on the public credit, and on freedom of trade have worn well when they have been observed, and have brought suffering by their neglect. The terror and tyranny of this century, the slave labor camps and barbed wired borders of nations with their fettered peoples prove once again that liberty depends upon order, and that if order is not founded upon and in accord with an underlying order it will tend to be nothing more than the will of the tyrant.

IDEAS ON LIBERTY

Cherish Public Credit

As a very important source of strength and security, cherish public credit. One method of preserving it is to use it as sparingly as possible, avoiding occasions of expense by cultivating peace, but remembering also that timely disbursements to prepare for danger frequently prevent much greater disbursements to repel it; avoiding likewise the accumulation of debt, not only by shunning occasions of expense, but by vigorous exertions in time of peace to discharge the debts which unavoidable wars have occasioned, not ungenerously throwing upon posterity the burthen which we ourselves ought to bear. The execution of these maxims belongs to your representatives; but it is necessary that public opinion should cooperate. To facilitate to them the performance of their duty it is essential that you should practically bear in mind that toward the payment of debts there must be revenue; that to have revenue there must be taxes; that no taxes can be devised which are not more or less inconvenient and unpleasant; that the intrinsic embarrassment inseparable from the selection of the proper objects (which is always a choice of difficulties), ought to be a decisive motive for a candid construction of the conduct of the Government in making it, and for a spirit of acquiescence in the measures for obtaining revenue which the public exigencies may at any time dictate.

GEORGE WASHINGTON, *Farewell Address*

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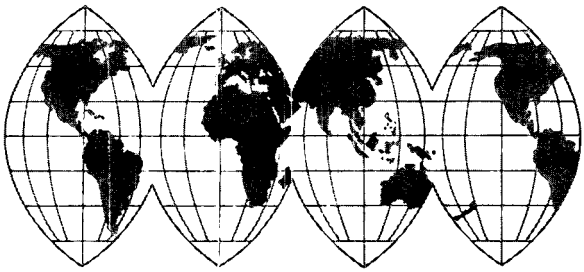
Hans F. Sennholz



THE WORLD DEBT CRISIS

"A small debt creates a debtor, a large debt, an enemy." If this old proverb is applied to the international situation, the United States and other industrial countries have made many new enemies in recent years. The external debt of third-world countries and communist countries to creditors in the United States and Europe has soared from less than $100 billion in 1970 to some $850 billion in 1982. At least 26 countries are in default and many more may fail in the coming years.

The bad debtors now are lashing at their creditors, the chief economic villains: the United States and Western Europe. "Much of Brazil's inflation is caused by chaos in the international economy," says Tancredo Neves of Brazil, "and that chaos is the fault of the rich countries who are our creditors." President López Portillo of Mexico accuses the Mexican banks in cooperation with foreign banks of "heading, advising and supporting" a capital flight from Mexico. "They have looted us. They will not loot us again." His government then seized all private banks, including $12 billion in dollar-denominated accounts owned by Mexican and U.S. citizens, and forcibly converted the dollar deposits into debased and depreciated pesos.

Many economists are fearful that the international debt crisis is more than the bankers can handle. They liken the global debt burden to a pyramid that is weak, getting weaker and heading for collapse. They draw ominous analogies with the finan-

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cial crisis of the early 1930s that greatly contributed to turning an economic slump into the Great Depression. Other economists, especially in government, reject such pessimism. They argue that the system is strong enough to weather a default of several major debtors, that the creditor banks have adequate reserves to cover any serious default, and that central banks would protect any individual bank from failing and thereby avoid a panic on the international markets. They also point to the International Monetary Fund—the lender of last resort—which can be expected to bail out countries in payment difficulties. They speak of a "safety net" that is protecting the world financial structure from falling apart.

The Safety Net

In fact, the safety net may be very comforting to overextended debtors and their lenders, but its very existence may have invited the overextension in the first place by encouraging bankers to loan more money than their foreign customers were able to repay. No matter how much money the banks would lend to "developing" countries—sometimes recklessly and foolishly—there was always the IMF to pick up the pieces. Surely, IMF and government officials are convinced that the world financial system needs more such safety nets that would prevent it from plunging into a serious crisis. But all such devices constructed by governments merely cushion the fall, they do not prevent it.

The safety-net advocates like to point to the lack of safeguards in 1931 when, in the midst of financial disorder, Austria, then Germany, and finally Great Britain defaulted in their payment obligations. In many respects the situation then was similar to that of today. Under the impact of a great flood of bank credit generated by easy-money policies of the Federal Reserve System in 1924 and thereafter, bank credit was superabundant in New York. High-yield foreign bonds were in great demand, which led many New York banks to extend loans to foreign borrowers, especially German states and municipalities. The funds were often spent on current consumption, called social service, that permitted the people to live better today at the expense of tomorrow.

There was no safety net, no international cooperation or institution that would come to the rescue of a small Austrian bank, the Credit-Anstalt, when foreign funds were suddenly withdrawn. The panic gained strength and spread from Austria to Germany, to London, and finally New York. Surely, prompt banking cooperation might have avoided the debtor collapse, but it could not possibly correct the great harm inflicted by the credit expan-

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sion. Billion-dollar loan funds had been squandered, the capital markets had been disarranged, prices and production disorganized. The seeds had been sown for a world-wide depression.

The Current Situation

What of the situation today? The credit expansion of the 1970s dwarfs that of the 1920s. It had its beginning in the United States and then spread like wildfire to all capital markets in Western Europe and Japan. It flooded the world with easy credit that amounted to hundreds of billions of dollars rather than a few as during the 1920s. It led to the default of dozens of sovereign countries, which wasted the funds on grandiose political schemes designed to glorify government and make socialism work.

But the present situation differs from the 1931 crisis in one important respect. In the 1920s and early 1930s the world money consisted of gold. The world was on a gold standard and all international payments were made in gold. Today, the world is on a U.S. dollar standard and most international payments and debts are settled in dollars. While it may be very difficult to construct a safety net of gold, it is rather simple for the U.S. government in cooperation with other governments to weave safety nets of paper money. Governments cannot manufacture gold; they can print ever larger quantities of paper money. But how safe are such paper nets?

The International Monetary Fund

Most international bankers and government economists look upon the IMF as the primary net that was woven at Bretton Woods, New Hampshire, in 1944. Its stated objectives are to promote international monetary cooperation and currency stabilization, which means the promotion of international government cooperation in matters of money management. The amount any government can borrow from IMF is in proportion to the amount it has deposited, which in turn is determined by the country's world trade, output, and the like. Debtor governments usually favor a large "quota," which they may establish by contributing primarily their own weak currencies and then draw hard currencies, such as U.S. dollars, German marks and Japanese yen. They are pressing for significant increases of their quotas so that they can borrow more and spend more. Many want their quotas trebled; some industrial countries (e.g., West Germany and Great Britain) merely favor a 50 per cent rise. The Reagan Administration is considering a $25 billion emergency fund, administered by the IMF, to help countries with cash crises.

For the most part, newly created

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central bank funds are used in IMF transactions, which makes the Fund an exchange for self-created and deteriorating currency and an international engine of world-wide inflation and currency depreciation. It is forever pursuing the spurious notion that the policy of inflation can be made to last indefinitely through cooperation of all member governments. It acts like a governmental cooperative with 146 members that tries to coordinate the inflationary policies of its members.

Governments that inflate and depreciate their own currencies at reckless rates and, therefore, face international payment difficulties, such as Mexico in recent months, are rescued immediately with billion-dollar loans. At the same time IMF imposes "conditionalities" that are supposed to correct the causes of the payment difficulties. But the conditionalities are usually taken from the armory of government control over the people. They include such devices as restrictions of imports, promotions of exports, tax increases, and so on. Rarely, if ever, does IMF recommend a reduction in the scope and function of government.

The U.S. Dollar Standard

The U.S. dollar as the world standard currency occupies the central IMF position to which all other currencies must adjust. But this central dollar position grants an ominous privilege to the U.S. government as the primary supplier of world currency. It permits the U.S. to inflate the dollar with a certain degree of immunity and to suffer painless balance-of-payment deficits because millions of people all over the world are eager to accept and hold U.S. dollars. The rising quantity of U.S. dollars gushing from Washington is met by a rising world demand, which keeps the dollar depreciation at a minimum.

But even this pleasant privilege that permits the American people to enjoy foreign imports without paying for them with American goods, is subject to certain limits. When, despite the privilege, the U.S. government manages to inflate the dollar at rates higher than the going world rate and thereby floods creditor countries with dollars, the dollar exchange rate tends to fall in international money markets, inflicting serious losses on countless dollar holders. Finally, when these dollar losses become unbearable, they may trigger a world-wide flight from the dollar, which would signal the end of the world dollar standard and the beginning of hyper-inflation at home. The dollar panics of 1978 and 1979, when President Carter had to raise $30 billion of hard foreign currency in support of the sinking dollar, revealed the very limit to which the dollar inflation could be carried without upsetting the world mone-

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tary order. U.S. monetary policy has been more restrained and conformable to IMF standards ever since.

The World Is Gasping for Liquidity

Third World debt has more than quintupled in a decade, half of which is owed to private banks. Repayments falling due in many cases exceed the debtor's foreign exchange earnings. In 1982 alone some $30 billion in payments falling due had to be rescheduled, which is three times the amount that were not paid on time in 1981. Cash-flow squeezes and debtor defaults may become worse in 1983 and 1984.

The 1970s witnessed the greatest credit boom the world has ever seen. There had been some credit expansion before August 15, 1971, when President Nixon unilaterally abolished the last vestiges of the gold standard. Credit expansion accelerated dramatically thereafter when the U.S. government flooded the world with U.S. dollars. Central bank reserves now consisting primarily of paper dollars expanded from $92 billion in 1970 to more than $800 billion in 1981. Commercial bank credit expanded two or three times faster than before. The Eurodollar market, which recycled the flood of petrodollar deposits to debtors all over the globe, grew from some $100 billion in 1970 to nearly $2 trillion today. All these credits fueled an inflation the likes of which the world has never seen before. The abundance of credit and bargain interest rates below inflation rates seduced many governments, companies and individuals to live beyond their means until they could borrow no more.

With the help of foreign loans and domestic credits many governments indulged in popular subsidy and transfer programs, consuming income and wealth at unprecedented rates. The foreign credits raised the levels of living of the debtors, especially government officials and their political beneficiaries, while they lowered those of the people of creditor countries. But the shock of default is signaling the end of the wealth transfer process from creditors to debtors, from capitalistic countries to socialistic and communistic countries. The consumption of capitalist wealth is finally drawing to a close. Consequently the levels of living in debtor countries are tumbling, transfer programs are failing, and the political forces that depend on the economic transfer are falling into disrepute. Politicians are calling it a "liquidity crisis"; in reality, it is a shock which spendthrifts usually suffer when called upon to make payment.

Seeking Security Abroad

Many debtor countries received large amounts of foreign credits that could not be invested productively

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under the given conditions. Where governments control and regulate every phase of economic life there are few opportunities for individual investment. Where governments inflate and depreciate their currencies at horrendous rates, the people seek escape from destruction by hoarding foreign currencies that are likely to depreciate at lesser rates. They are hoarding U.S. dollars or investing them abroad.

Millions of Mexicans, Argentineans, Chileans, Uruguayans, and many others, found U.S. dollars and U.S. investments extremely advantageous. They rushed to their banks loaded with dollar credits and bought U.S. dollars for depreciating pesos. The banks acted as turntables, bringing dollars in and lending them to people who would take them back to the U.S. Many a Florida condo is owned by citizens of bankrupt debtor countries. Their politicians call it a "liquidity crisis"; in reality it is a flight of private capital from governments that would consume and destroy it.

The soaring inflation of the 1970s naturally raised interest rates which together with the rise in total indebtedness raised the interest burden. In the debtor countries a large portion of income now goes to pay interest on foreign debt and to roll over old debt at rising interest rates. Interest payments have doubled in recent years, which without the injection of new loans are squeezing the life out of borrowers. To meet pressing payment obligations many resorted to short-term borrowing, which is squeezing the debtors harder still. Many countries are de facto bankrupt—Mexico, Argentina, Chile, Costa Rica, Bolivia, Poland, Rumania, and several African states. Others may fail to make interest payment when it falls due—Peru, Venezuela, Yugoslavia and, most important, Brazil. They all blame the liquidity crisis; they should decry their own policies that would circumvent reason and inexorable economic law.

The Call for "Reactivation"

The international banking system is under great strain. There is little hope that many foreign debtors will ever repay their debt. Creditor wealth has been wasted in public works and social service, lost on countless schemes of government welfare and development, which were to create a better world through political action or outright socialism. The experiment, which is costing the capitalist countries hundreds of billions of dollars, is failing visibly as poverty and misery are descending on the debtor countries.

But spendthrift politicians rarely learn from their own experience. One political party may replace another, one junta may overthrow another, but the economic policies may re-

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main unchanged because the notions and doctrines that are breeding the policies are not changing. The bad debtors of the world now are calling for "reactivation" which is more of the same. They want "reinflation" on a global scale, to bail out governments and companies wallowing in bad debt. Even U.S. politicians are talking about "reactivation" through legislation that would lower interest rates, create more credit, or force the Federal Reserve System to stimulate the economy through more dollar injections.

The wide road ahead leads to "activation," which in time will rekindle the economic boom and save many debtors through monetary depreciation. It is protected by many safety nets designed to cushion the fall of the most reckless debtors. But it is also a downhill road on which inflation will accelerate, the U.S. dollar will suffer worse panics and crises than in 1978 and 1979, and the world economy will slowly disintegrate and sink into permanent despair.

The road to peace and prosperity points in the opposite direction. In the words of an 18th century French philosopher, Charles de Montesquieu, "countries are well cultivated, not as they are fertile, but as they are free." On the road to freedom government powers and functions must be reduced in every sphere of individual life, and politicians be separated from the economic activity of the people. Above all, the political apparatus must be completely segregated from money and finances; the power over money must be taken out of the hands of politicians and returned to the people.

Any Major Nation May Lead the Return to Freedom

Any one of the principal countries can lead the way. It would immediately restore the individual freedom to choose any currency and medium of exchange, and remit the freedom of contract in all monetary matters. In a country racked by chronic inflation, such as Mexico, Argentina, and other Latin American states, financial stability would soon return through the development of a parallel standard of pesos and world money, that is, U.S. dollars. If two or more currencies are freely usable and exchangeable in all transactions, at free and unhampered rates, the people will prefer the most stable and reliable currency, which in many countries would be the U.S. dollar. Thus, the legal parallel standard would probably become a de facto dollar standard in many parts of the world.

A dollar standard in Mexico, Argentina, Chile, and Bolivia, would bring immense improvements to economic life and well-being. But the dollar standard would merely be an interim step on the road of monetary

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freedom. In time the dollar standard, which, too, is a political standard managed by spendthrift politicians in Washington, would be found wanting and, therefore, be replaced by the only natural standard, the gold standard. If people were free to choose they would prefer non-political money, honest money, the money of the ages, which is gold.

Monetary Stability

If the U.S. were the leader toward world peace and prosperity, it would point the way toward monetary stability through the gold standard. It would shun the temptations and privileges of a world dollar standard and lead the way by bringing its own house in order. It would restore individual freedom in money and banking by repealing the myriad of laws and regulations that engulf the financial institutions. Instead of purging gold from the financial system it would encourage the use of gold in all exchanges and clear the way for a parallel standard of dollars and gold.

If the U.S. government were a financial leader toward monetary stability and economic prosperity it would set an example to the rest of the world by balancing its budget this year and every year, and abstain from any further currency and credit expansion. And once the dollar ceases to lose any more purchasing power, not even 5 per cent, 3 per cent, or 1 per cent, it would be made redeemable in gold. In short, politicians and government officials would surrender their power over money and banking to the people who would be free to choose.

As a world leader the U.S. government would withstand the temptation to rekindle the world paper boom through more inflation and credit expansion. It would refuse to join the Third-World search for more bank credits, to build more safety nets for reckless debtors and irresponsible lenders, grant more quotas or foreign aid to socialist and communist countries, and cooperate in any international scheme that would deny monetary freedom to individuals. It would withdraw from the International Monetary Fund and the World Bank, and cease to cooperate with any government that seizes, blocks, or confiscates American property.

As true leaders of the free world Americans would have no need to lead—they would be content to set an example and point the way.

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John K. Williams

The Armor of Saul

ONE of the most dramatic stories in the Bible is the story of David and Goliath. Goliath, almost ten feet tall, was truly a fearsome figure. Every morning and every evening he, the champion of the militant Philistines, hurled his challenge at the Israelite army: Send one man out to do battle against me! If the representative of the Israelites won, the Philistines would become slaves of the Israelites. If he, Goliath, won the Israelites would become slaves of the Philistines.

David, a mere stripling of a lad, approached his king. He claimed experience in battle—had he not, when caring for his father's sheep, actually killed a lion and a bear? Was he not therefore qualified to take on the giant?

Moved, perhaps, by the simplicity of the boy, King Saul agreed. David could fight Goliath. Indeed, David could do so wearing his, the king's armor. Yet, having put on the armor, the lad decided to remove it and return it to Saul. It was too heavy and impeded his movements. The armor of Saul would have hindered, not helped.

David's courage was exceeded only by his wisdom. If he were to have a chance of victory, he could not afford to do battle weighed down by unnecessary armor. Taking on the giant was courageous; to do so encumbered by the armor of Saul would be folly.

Many defenders of the freedom philosophy lack the wisdom of the youthful David. They do battle weighed down by the equivalent of Saul's armor. They allow themselves to be burdened by that which hinders rather than helps their cause. They clutter their case by accepting

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The Reverend Dr. John K. Williams explores and explains the principles of freedom from his base in North Melbourne, Victoria, Australia.

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propositions that have nothing to do with the free society or the free market.

"We should go back to the free market"

To defend the suggestion that we should *go back* to the free market is to assume a historical claim that in itself can alienate men and women. It suggests retreat. It conjures up a picture. The picture is that once upon a time economic liberty was the norm. Over the years humanity moved in new directions, initiating and bringing to birth a novel experiment in economics. Central planners would coordinate and direct what hitherto had been uncoordinated and directionless. While it may be true that a defective clock *should* have its "hands turned back" so they indicate the correct time, "turning the clock back" is an activity men and women do not warm to. They tend to side with those who valiantly push forward into new and uncharted territory. Those urging that we "go back" to the tried and the tested are perceived as cautious, indeed, perhaps somewhat nostalgic in disposition.

The truth is, of course, that those enthused by the arguing for the free market in a free society have sided with advance. The economy planned and directed by "experts" has, historically, been the norm. Monarchs knew what was best for their subjects and told them what to do. Feudal lords knew what was best for their serfs and directed their activities. Aristocrats knew what was best for the masses and dictated how these lesser mortals should spend their days.

Consider the France of Louis XIV. Every person had his or her place in society and kept to that place. The economy was carefully planned. State officials decided what industries should be established and where in France or its colonies they should be located. Imports and exports were carefully regulated. Prices were set by political figures. Governmental committees prescribed what patterns were to be woven in the State-owned tapestry works at Aubusson; indeed four long years of negotiation preceded the giving of permission to introduce "backwarp" into fabrics. Some two thousand pages were required to list the rules and regulations which were passed between 1666 and 1730 controlling the textile industry. The contemporary socialist would have been perfectly at home in such an environment!

It is the socialist, not the advocate of liberty, who yearns for the past! The welfare State is fast regressing to Louis XIV's France. In February 1982 a special report was presented to the U.K. Parliament. Entitled *Administrative Forms in Government* it documented the burgeoning of government forms and leaflets in

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Great Britain. The two thousand pages of rules and regulations governing but one industry in France three centuries ago are modest in comparison! Over 2,000 million government forms and leaflets are used by the U.K. public annually—that means thirty-six forms for every man, woman, and child in the country! The forms, as befits government, are difficult to follow and fill out; "error rates of over 30%, either by [government officials] or the public, are common." The report concludes by listing ten further "reports on forms" which people with nothing better to do can read.

Political Control the Norm

Political control of a nation's economy has been the usual state of affairs. The eighteenth century lovers of liberty were the radicals. They attacked the remnants of feudalism, fought for the abolition of caste and privilege; battled for an extension of property rights so the powerful could no longer plunder at whim; agitated against entrenched, State-granted monopolies and protective tariffs which benefited the few but impoverished the many; and dreamed of an economic order controlled not by the edicts of government but by the uncoerced endeavors of the multitudes, freely producing and exchanging whatsoever goods they chose.

And they won! A hitherto unknown phenomenon emerged: sustained economic growth. In 1780 over 80% of French citizens spent 90% of their income on just sufficient bread to stay alive. In 1800 average life expectancy was, in France, twenty-seven for females and twenty-four for males. The vast multitudes in Europe and North America labored long and hard to survive. Recurrent famines were taken for granted. But matters changed. The working populace of England quadrupled between 1800 and 1900. Real *per capita* disposable income doubled between 1800 and 1850, and doubled again between 1850 and 1900. This 1,600% increase in available goods and services transformed the very nature of poverty, and what had once been luxuries enjoyed by the few became everyday realities possessed by nearly all.

Yet there were those who yearned for the past. There were those who wanted to turn back the clock. There were those who wanted to use the guns of government to guarantee continued possession of their wealth rather than to have that continued possession contingent upon the use of that wealth in ways which best and most efficiently satisfied the needs and desires of others. Even though they sought to lead nations back to the seventeenth and eighteenth centuries they had the impertinence to call themselves "progressives." They spoke of a yearning

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of a "new" socialist society—yet in truth their yearning was but nostalgia for the past.

The lover of liberty is not urging anyone to "go back" to ancient ways. He rather urges men and women to go forward, knowing not where the creativity unleashed by the free market in the free society will take them. To speak of "going back" to the free market is to weigh oneself down with the armor of Saul.

"While less moral than socialism, capitalism is more productive"

How frequently lovers of liberty concede that their opponents are idealists. "Yes, I admire your ideals. Yet they are impractical. The market works. We must be realists!"

What is so moral or idealistic about socialism? Even in purely material terms, what is moral about the inability of the 30% of the workforce of the U.S.S.R. involved in agriculture to feed a nation which once exported grain, whereas the mere 4% of the workforce of the U.S.A. involved in agriculture feed an entire people and a great deal of the rest of the world as well? What is so moral about the fact that the real wages of Soviet industrial workers attained the level of 1913 only in 1963?[1] What is so moral about the fact that many African States such as Tanzania which once boasted thriving agricultural bases listened to the advice of western intellectuals consumed by a pathological hatred of the very system that had delivered them from penury, collectivized (in the name of "agrarian reform") agriculture, and now are dependent upon foreign aid for the most basic of food stuffs? Is not the "new French" philosopher Jean François Revel correct when he suggests that these "western experts" should "contemplate the stare of dying children looking . . . out of those pictures [from the Third World]"[2] and commune with their consciences?

Yet the moral issues run deeper. The market economy ultimately reduces to a very simple reality. Person A is skilled at catching fish. Person B is skilled at growing bananas. Person A would prefer to surrender some of his fish and secure several bananas, and person B would prefer to surrender some of his bananas and secure several fish. So they swap! Each person surrenders what he values less and acquires what he values more. Each gains. Neither loses.

Yet suppose a third person, C, enters the picture. He uses or threatens to use force and makes A give some fish to B and to himself. B and C have gained, but poor old A has lost. *The coerced exchange does not and can not benefit all.*

When the State forgets that its task is simply to prevent people using actual or threatened force, theft, or fraud to acquire material goods,

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and starts deciding who "deserves" what and uses force to impose this "deserved distribution," there are losers. In spite of socialists' fantasies, the "winners" are *not* usually the poor. (Even if the poor *were* the "winners" the use of violence to take goods from those who produced them would still be immoral, but maybe the socialist could quiet his conscience by seeking refuge in the principle grasped by most evil-doers: "The end justifies the means.") Yet in truth most "transfers" of wealth, direct and indirect, tend to favor the powerful, not the poor. Tariffs, agricultural price support schemes, subsidies to health (most of which go to the medical profession), housing subsidies, subsidies to higher education—these do not benefit the poor. They hurt the poor and benefit the powerful! Then, of course, there remains the massive army of administrators, bureaucrats, and welfare workers presiding over the system: they most certainly benefit but can hardly be called "poor."

The Welfare State

Most socialists, of course, concede that the "bureaucracy has got out of hand." *Their* new and untried version of socialism will guard against this happening: Yet Ludwig von Mises saw, nearly four decades ago, that a burgeoning bureaucracy inevitably emerges in a welfare State.[3] The reason is simple. In the market, individuals engaging in voluntary exchanges can only promote their own interests by furthering the interests of others. In the world of politics, however, this is not true. *How can the politician further his own interests?* The answer is clear: by transferring wealth to organized special interest groups! He can concentrate benefits, but disperse costs. Ordinary citizens simply cannot afford the time to dig out information as to where their taxes go. Hence powerful groups "win" and powerless individuals "lose." And to administer the transfers more bureaucrats are required. The class of net tax recipients keeps growing; the class of net tax payers keeps shrinking.

The "law of the jungle" emerges. The voluntary, peaceful exchanges of the market are supplanted by the struggle to get to the government trough. One special interest group turns in anger on another which received "better treatment." Just how "moral" is this divisive exercise of power to grab a share of what was stolen in the first place?

"Ah! But we socialists dislike selfishness. The free market enshrines it!"

The word "selfishness" is a slippery word. "Self-interest" is maybe better. Best of all, perhaps, is reference to an individual's vision of the "good life" and his attempts to real-

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ize it. In a free society all are at liberty to formulate their own such visions and strive, non-coercively, to realize them. One man may desire a modest—indeed frugal—way of life with plenty of leisure to bask in the sun, gaze in delight at the beauties of the physical world, and think. Another may dream of amassing great wealth. Each is at liberty to pursue what he desires. Yet the allegedly "selfish" man—the one who seeks great wealth—can only do so by providing other people with what they desire at least cost to these people.

Adam Smith, in 1776, spoke of the "mean rapacity" of some "merchants and manufacturers" and, perhaps unkindly, claimed that such people "seldom meet together, even for merriment and diversion, but the conversation ends in conspiracy against the public."[4] That was precisely why he yearned for the free market in a free society. Limited by the rule of law, "mean" and "rapacious" people would have to serve the public if they were to improve their own situations. Indeed if one asks what political and economic structures are so designed that thoroughly despicable human beings, enjoying political or economic success, are least able to hurt their fellows, the answer can only be "the free society and the free market."

Accepting the view that socialists are moral idealists, whereas those holding to the freedom philosophy are pragmatic realists, is to go into battle weighed down by the armor of Saul.

"Really, profits are very low. Successful businesses and corporations are not *too* greedy!"

A major company recently ran an advertisement showing the "break down" of the "corporation dollar." Of the total, 95¢ went in salaries, wages, the costs of raw materials, and so on. *Only 5¢ represented "profits"!* Of that amount, 3¢ were plowed back into the corporation to purchase the machinery and equipment to provide one new job (the cost of which was in excess of $30,000) and 2¢ went to shareholders.

Now I sympathize with this advertisement. A recent survey revealed that most Australians believe corporations earn an after-tax profit of "about 40%." A 1975 poll conducted by the U.S. Opinion Research Corporation revealed that most Americans estimate that manufacturers enjoy an after-tax profit of 33%. Indeed, Australian newspapers—and I would guess most U.S. and U.K. newspapers—rarely use the word "profits" without an adjective preceding it: "obscene profits," "huge profits," "record profits," and so on.

Yet, while sympathetic, I reject the advertisement and what it represents. What does it "represent"? An apology! An acceptance of the view

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that "profits" are somehow unpleasant or evil! Such an apology, and such an acceptance, are but part of the cumbersome armor of Saul.

Profits are good. They are "good" for shareholders, but also "good" for countless other people. How the supporter of the freedom philosophy is to explain this to his neighbors who think otherwise is difficult to determine, *but the way is most certainly not to reinforce widespread error.*

Perhaps the first point to notice is the sheer silliness of a slogan which, in Australia, adorns many a bumper bar: "People before profits!" This slogan is but a "catchy" variant of an older slogan: "Production for use, not production for profit."

The humble reality is that the person who produces goods or provides services people do not value is not going to make any profits at all! Really, that's all there is to say on this matter. After all, having pointed out that 1 + 1 = 2, there is little point in discussing the matter further. Unless, of course, like A. N. Whitehead and Bertrand Russell who, in their *Principia Mathematica,*[5], went to great lengths to explore the hidden logical subtleties of what, to the ordinary man, is self-evident, one wishes to do the same in economics. Indeed, Ludwig von Mises did just that in his masterpiece, *Human Action.*[6] Yet, for ordinary purposes, it is sufficient to point out that a company producing a commodity which people, in their fickleness or even good taste, do not wish to possess is *not* going to record massive profits!

I have no doubt that the Packard was a fine car. The American people, however, did not like it. Other companies made cars which the public preferred. Quite apart from any other consideration, the Packard was dearer than alternatives which performed just as well. So the people said "No thank you" to the manufacturers of the Packard and acquired what they wanted elsewhere. The manufacturers of the Packard did not record massive profits! The most useful products from the point of view of consumers turn out to be the most profitable. Were I to turn my clumsy hands to the making of clay models of Miss Piggy, I fear few admirers of that gracious lady would purchase my product. They want a model which looks like Miss Piggy! The needs of people dictate who does, and who does not, make a "profit."

The Customer's Choice

Yet the matter is more significant than that. Once upon a time people, getting rid of their garbage, either threw it into a garbage can or wrapped it in newspaper and put the resulting parcel into the garbage can. Then someone, somewhere, thought of plastic bags which, lining a garbage can, would make life easier and garbage cans less smelly! *What was*

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the first question that person had to ask? He had to ask what people would be prepared to pay for such bags! Would they pay $10? No—people would prefer either to keep that $10 or procure two paperback novels than to surrender that $10 or forego two paperback novels and own a plastic bag for the disposal of garbage. Would they pay $1? Maybe—but most people would prefer to forego the possession of the bag and procure, say, a pack of cigarettes than to forego the pack of cigarettes and obtain the bag. Would they pay 30¢? That sounds reasonable. Now what does the maker of plastic garbage disposable bags have to do? (He could, of course, reject the free market and try to charm a politician into making the purchase and use of such bags compulsory, but that is to reject both the free society and the market. Let us, however, ignore this cheat!) What he must do is find a way of manufacturing such bags *below* the "price" set by consumers. If he works out a way to make such bags for 1¢ he stands to make a "high" profit. Sadly—at least for the manufacturer—such a high profit would signal to others that they should get into the act and reduce the price of such bags—and make more modest, yet tolerable, profits! The critical point, however, is that profits demonstrate that producers have found ways whereby they use resources to produce a product at costs *below* the value people place upon the product. *Profits are residuals.* They represent not something wickedly "added" to a price, but the difference between a people-determined price and the costs of manufacturing some commodity.

Yet again, that is but part of the story. The time, physical labor, and resources which go into the making of plastic garbage bags *could* have been used to create some other commodity. How does one work out whether to use these resources to produce garbage bags, or some other product? *The answer lies in the magic word "profit."* For profits simply show that people *want* disposable plastic garbage bags more than they want, say, plastic slippers! The company making large profits—in a genuinely free market—is using material resources, time, labor, and intelligence in a way satisfying what people want and need rather than using the same "ingredients" in ways which do *not* satisfy what people want and need. Limited resources are being allocated in a people-serving, responsible way.

No Apology Needed

To "apologize" for profits is to put on the heavy armor of Saul. Defenders of the philosophy of liberty *do* have a Goliath of prejudice and error to fight when it comes to "profits," but they must not weigh themselves down by carrying an unnecessary load. Carefully, cogently,

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and non-aggressively, they must explain what profits are and why they are not "evil." There is no other way.

David won. The mighty Goliath, sheathed in his bronze armor, was defeated by a youth bearing five stones, a shepherd's bag, and a conviction that he came to do battle in the name of the "Lord of hosts."

Truth is mighty, and it *will* prevail. The battle is not easy, but in truth the socialists have already lost. Their many experiments have failed. Yet their voice, like that of Goliath, resonates like thunder and brings terror to the hearts of many. There is a fight to be fought, and the defender of liberty faces difficult tasks. Hence such a defender must say "No!" to the armor of Saul. He must not wear what weighs him down. He must not carry burdens that in truth are not his to carry. His advisers, like King Saul, "mean well." But like the lithesome youth, he must be careful.

"Saul made David put on his own armor and put a bronze helmet on his head and gave him his own breast plate to wear, and over David's armor he buckled his own sword; but . . . David found he could not walk. 'I cannot walk with these,' he said to Saul . . . So they took them off."[7]

—FOOTNOTES—

[1]J. Pavlevski, *Economies et Sociétés* (Journal of the Institute of Applied Sciences, Geneva; February, 1969).

[2]J. F. Revel, "The View from Paris", *Encounter* (December, 1980).

[3]L. von Mises, *Bureaucracy* (reprinted, Arlington House, New York, 1969).

[4]A. Smith, *An Inquiry Into the Nature and Causes of the Wealth of Nations* (Random House, Modern Library Edition, New York), p. 250.

[5]A. N. Whitehead *et al., Principia Mathematica,* three volumes (Cambridge University Press, Cambridge, 1910–1913).

[6]L. von Mises, *Human Action* (third revised edition, Henry Regnery Company, Chicago, 1968).

[7]I Samuel, chapter 17, verses 38, 39.

IDEAS ON LIBERTY

Winners All

THE nature of free enterprise is such that everybody concerned with it wins. Material suppliers, equipment dealers, money lenders, workmen, and customers, contribute what they value less and receive what they value more. There is a net gain for each person. Also, where there are several competing enterprises, each person is free to deal with the organization that returns the *most* for what he contributes. Thus there is a natural selection of those firms who are capable of operating so that each person, whether he be a material supplier, equipment dealer, a workman, a banker, professional man, or customer, receives the *most* for his contributions. Any firm that cannot compete under these conditions fails.

H.G. THUESEN, "Everybody Wins in Free Enterprise"

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Henry Hazlitt

Market Prices vs. Communist Commands

A CORRESPONDENT recently asked me why it was that Soviet Russia seemed to be suffering in recent years from chronic "crop failures," and found itself forced to import increased quantities of foodstuffs from the United States and other capitalistic countries. She understood, she wrote, that the most frequent explanation offered for this was that Russia operated under "communism" and that the countries exporting food to her were "capitalistic." But she wanted to know more in detail just why these different results came about.

I started to answer on the assumption that my explanation would be simple and brief, but soon found myself getting into complications.

In its simplest form, of course, the explanation *can* be brief. Under "capitalism" (Karl Marx's vocabulary)—that is to say, under a free market system—the individual farmer is rewarded by earning a profit if he grows the right things in the right amounts, and is penalized by a loss if he grows the wrong things. He is daily guided in his plans and operations by the prices of farm commodities in the "market." (Sometimes this may mean the national speculative markets on the commodity exchanges, where prices change from minute to minute, and sometimes it may mean merely the local market in his own district.)

The average farmer, of course, has little conception of how many prices

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of how many commodities, and grades of commodities, this involves. We could begin by citing such leading U.S. crops as corn, oats, barley, sorghum, wheat, rye, flaxseed, cotton, cottonseed, tobacco, hay, beans, peas, peanuts, soybeans, potatoes, seed crops, sugar cane, sugar beets, pecans, almonds, walnuts, filberts, oranges, tangerines, grapefruits—but the list goes on and on.

We can get an inkling of the number of commodities from the daily newspapers. *The Wall Street Journal*, for example, daily lists "Cash Prices" of more than 90 commodities, of which the majority are farm commodities. In that paper's long list of "Futures Prices" on the commodity exchanges, there are some 350 prices listed of a single grade of about 45 different commodities with six to ten different delivery dates.

If we add to these "national" prices the prices in local markets, we get a total that can run into the millions.

How Many Prices?

How many prices of all different commodities and services are there, in fact, at any given moment in an economy like the United States? Nobody knows. But in 1943 Chester Bowles, then head of the Office of Price Administration (OPA), was asked this question by a Congressional committee. He came up with an estimate of 8 million. A few days later this answer was withdrawn as much too low. It depended on how you defined a "commodity" and how you defined a "price." No definite answer was ever substituted.

But if, for the sake of argument, the figure were only 8 million prices, how could any bureaucracy, without previous actual market prices to guide it, go about safely fixing even one of them? For such prices, and their interrelationships—which would reach 8 million times 8 million, or 64 trillion—would reflect the past production and demand, absolute and proportional, for the 8 million commodities and services; they would embody everybody's expectations at the moment based on individual scraps of knowledge; and would largely determine the future absolute and relative supply and demand. No computer could solve this problem. Without a set of previous real and recent market prices, without informed expectations, the bureaucracy would have to make 64 trillion blind guesses.

Each farmer in planning his next year's acreage of each of the crops he plans to raise, is guided by the current or expected market price of each commodity. So thousands of different commodities and grades of commodities are planted in the proportions decided upon by each farmer on his assumptions regarding which will bring him the maximum profit (or, it may be, the minimum loss). In each case, to repeat, he is rewarded

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by the success of his estimates or penalized for his mistakes. He can change his plans any day, up to the actual day of plowing or planting.

We have been talking about the workings of an ideal free market system. This unfortunately does not exist in the United States. For many years, for example, the federal government has been subsidizing the production of milk by guaranteeing minimum prices, and thereby bringing about huge wasteful surpluses paid for by the taxpayers . . . But that is another story.

Working in the Dark

Let us turn now to the problem confronting a communist nation. Such a nation, in the present world, is not totally without price guides. It is parasitic on capitalism, because it knows the prices being quoted for various commodities in capitalist countries. It can make plausible guesses (by figuring presumptive transportation costs in the same way) concerning how to convert these into equivalent prices in its own country. (Much depends on whether it allows a free exchange rate for its currency in the foreign exchange market.)

Apart from this, a communist bureaucracy is working in the dark. It must make blind guesses concerning the size and proportions it wants of the thousands of commodities to which it assigns production quotas for individual farmers. If by oversight or intention it omits some commodities from its production schedules, those commodities will not be produced at all.

The situation is slightly alleviated when the bureaucracy allows individual farmers to devote a certain proportion of their acreage to raising crops for their own consumption. But from the bureaucracy's standpoint, this has a disadvantage. It allows cheating on the part of individual farmers who try to get as much "free" acreage as they can in the hope of having some surplus foodstuffs to sell off on a black market. These farmers, of course, are forced to guess how much they can successfully cheat, and just what surplus production of each commodity would pay the maximum return.

But as the farmers under communism, by and large, do not individually profit from raising the "right" amount of a given crop, and are not proportionately penalized for raising the "wrong" amount, both bureaucrats and farmers are working in the dark. The individual farmers are deprived of the incentives and deterrents that would guide them in a market economy. The bureaucrats' overall plan must chronically go wrong. They do not know the absolute amount of each commodity that it would be most productive to raise nor the *relative* size of each crop. Any relative surplus in the size of one crop must—with a given working

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force, acreage and capital—force a corresponding shortage in the production of another.

The communists, in short, cannot engage in what the late Ludwig von Mises labeled "economic calculation." Their production plans, therefore, *must* be unbalanced, haphazard, and wasteful. If they put their emphasis on producing "enough" of commodities A, B, and C, for example, they will almost certainly do so only at the expense of a corresponding shortage of commodities D, E, F, and G.

The Inevitable Errors

The inevitable errors in the communists' overall plans of production must occur as well in their methods of production. In a country operating with a free-market system, of course, individually mistaken and costly methods of production can also be pursued, but through the play of individual profit or loss the more efficient producers will be constantly increasing their share in production and the inefficient will be forced out of the field. Every year something new will be learned. In a non-inflationary free economy there will be a tendency for production methods to be constantly improved and costs to be cut.

So when we examine closely how the two systems, communism and free market economy, work in detail—the one controlled by bureaucrats imposing by fiat a single overall production plan from the top, the other operating through the free and flexible production and consumption choices of millions of individuals, with their individual decisions constantly modified and coordinated by a system of free market prices—we can see why the capitalistic system is so enormously productive, and why the overall production plans of the communist bureaucrats must go wrong *chronically* and *necessarily,* and not merely because of bad luck or bad weather.

It remains to ask why the communist bureaucracies have not recognized this, or even, apparently, acknowledged it to themselves. The most obvious answer is that they have a vested interest in not acknowledging it: they would be overthrown. But a full answer goes much deeper. They did not originally adopt their doctrines through mere analysis and reason, but through an appeal to hatred, envy, vindictiveness, and cupidity: To quote the conclusion of the *Communist Manifesto,* (1848): "The workers have nothing to lose but their chains. They have a world to win. Workers of the world, unite!"

Wrong Theories by Marx

Das Kapital, which purports to give the economic reasoning which led to the *Manifesto's* conclusion, did not begin to appear until a quarter cen-

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tury later—1873 for the first volume, 1885 for the second, and 1894 (eleven years after Marx's death) for the third and final volume.

Kapital is obscurely written and nearly unreadable. It is built on a distortion of the errors of Ricardo. It ascribes the creation of all economic goods solely to "labor," overlooking or explaining away the contribution of nature, land, capital, human intelligence, or any other factor. It tries to ignore, also, the thousands of different degrees of specialized labor skills by reducing them all to a single homogenized goo called "the [average?] socially necessary working time" required to produce different commodities and services.

It is only, Marx tells us, the number of hours of this "socially necessary working time" that has gone into a commodity that determines its comparative value in the market. Any profit that goes to an employer above his payroll is in effect stolen from his "exploited" workers.

I shall not go on to explain or expose all the fallacies and contradictions embodied in Marx's theories. That was magnificently done by Eugen von Böhm-Bawerk in his book *Karl Marx and the Close of His System,* originally published in 1896. Only the emergence of "Austrian economics" (beginning about 1870) made such a conclusive refutation of Marx possible. If my reader has not yet read Böhm-Bawerk's book, I recommend that he make up his loss without socially or personally unnecessary delay.

IDEAS ON LIBERTY

In the last analysis, the value of all goods is bound up with man and his purposes. Now the position which man takes toward a given purpose determines whether or not in ordinary parlance he ascribes value to a particular good. And that position may be either of two kinds and on its kind is based the familiar distinction between value in its subjective sense and value in the objective sense. In its subjective sense value denotes the significance which a good or a quantity of goods possesses for the well-being of a certain subject. The word "well-being" is here to be understood in a very broad sense. It is in such a sense that I should say that a good has value for me, if I recognize that my well-being is bound up with it. By this I mean that possession of the good satisfies some want, provides some gratification, affords some pleasure or spares me some pain, which I should be forced to forgo (or suffer, in the case of pain) if I did not possess the good. In that case the presence of the good means a gain for my well-being, the loss of the good means a corresponding loss. The good has importance to me, it has value for me.

EUGEN VON BÖHM-BAWERK, *Value and Price*

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Morgan O. Reynolds

UNIONS and VIOLENCE

THERE is a long and violent history of labor disputes in this country. The facts really are not in serious dispute, only their interpretation. Facts always are interpreted within the context of a general theory of human action. One view, popular among Europeans and our industrial relations community to some extent, is that labor violence is simply part of a wider tendency toward violence in the American character. A more influential view promoted by unionists and their academic defenders is that American employers were especially brutal and defiant toward their workers and toward unions, and, therefore, were at least as guilty as unionists in causing labor violence.

Moreover, goes this theory, the violence which sometimes accompanies labor disputes is incidental, and surely is a small price to pay for the benefits produced by unionism. The well-known rationale is that labor must be allowed to combine for its own protection and use "labor's weapons" to offset its inherent bargaining disadvantage relative to capital. Unionism allegedly offsets the excesses of capitalism, a system supposedly stacked against labor and in favor of propertied capitalists who control the means of production. In sum, unionists argue that the benefits of unionism outweigh its modest costs in threats and actual use of violence.

In any analysis of unionism, there are two general issues to confront. The first is to discover the actual effects of unions on economic variables like the level of national output, unemployment, real wages, the rate of inflation, government spend-

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ing, and so on. The second general issue is to analyze the means unions use to pursue their economic and political ends.

Union men basically argue that their objectives and their effects on the general public justify or excuse the threats and violence which often flare up in union disputes. This argument is familiar among collectivists, who usually argue that it is results that count, not the process. "You must break some eggs to get an omelette," is their contention. Coercion supposedly is all right when exercised on behalf of the good causes that unions seek to promote, or to put it in economic terms, expected benefits supposedly exceed expected costs. Many people would argue, however, that the end does not justify the means, that, indeed, use of the proper means is the real end that we seek in human affairs. Most economists would also object that unions do not, on balance, produce economic benefits.

Useful theories in the sciences and in studies of human behavior are compact yet explain and predict a rich variety of observed and yet-to-be-noticed facts. The theory of monopoly or cartels in economics passes this test because its application to unions yields a tremendous payoff based on a handful of correct statements about unions. The theory explains an impressive array of facts about what unions do. Moreover, there is no competing theory of unionism, no other general theory of unionism available. Even though imperfect, we cling to theories which help us to understand a wide range of behavior until a superior theory comes along. And there is no new theory of union behavior on the horizon.

My purpose here is to briefly recount the theory of unionism, show why *threats and violence are an integral part of unionism,* use the theory to highlight the problem of unionism in the public sector, analyze why the theory is ignored by most of the industrial relations community, and then discuss what to do in terms of public policy.

The Basic Theory

The economist's special insight into union violence rests on the theory of monopoly, more properly, cartel theory, as well as the general notion that people respond to incentives. In economic terms, a trade union is a combination of sellers of labor services who individually have little or no control over the labor market but who seek to control the market through collective action. Unionists have never concealed their ambitions because they often have announced that their purpose was to "take competition out of wages" or to "take wages out of competition." Unionists seek higher wages, shorter hours, and more comfortable work-

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ing conditions, assuming that the leaders operate in the interests of their members, which I am prepared to concede for present purposes.

There is nothing different in principle between labor unions and combinations of other producers who try to restrict supply and push up the prices of their goods or services. Unions are labor OPECs, concentrated interest groups with interests diametrically opposed to those of consumers. The term consumer is really another name for the general public. Consumers are other producers, so unions represent minority groups of workers who pursue their economic gains at the expense of the majority. In Hobbesian language, the economy would be a war of everybody against everybody else if everyone were organized into unionized blocs.

Labor services are the key input, among the many inputs, that businesses and government agencies use in the daily productive process. Owners and managers of businesses naturally attempt to purchase the inputs they desire as cheaply as possible, given the quality they wish to use. They economize on costs in order to show a profit, an essential condition for survival in the marketplace, or else stretch a given budget further. Households seek low prices too, and therefore behave much like businesses in their buying behavior.

Competition Protects Workers

In a competitive labor market, without unions, what would protect workers from exploitation from "avaricious" buyers? Competition would. The presence of alternative buyers for labor services protects people in their capacity as suppliers of labor services. This protection is one of the paradoxes of a free market. Each person in markets composed of many buyers and sellers of similar services is powerless in the special sense that the prices of services are formed in an impersonal way, beyond the manipulation of any individual. Yet each person is all-powerful, too, because of the many alternatives available and the freedom to refuse or accept various options.

The fictional Irish-American philosopher, Mr. Dooley, said, "This country is ruled by courtesy—like the longshoremen's union." This comment gets at the heart of the continuing controversy over unions, which remain the most controversial private (or quasi-private) organizations in our society. Controversy derives from the fact that unions are departures from a naturally competitive labor market and their power to extract economic concessions ultimately rests on their ability and willingness to use force. Unionists promise to deliver monopoly advantages to their members and their power to deliver on their prom-

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ises rests on the ability to deny businesses and government agencies access to labor, the crucial input in the production process.

Even when all members unanimously agree to withhold their labor services from an employer in order to enforce demands for more pay and better working conditions, a union controls very little of the available labor in the economy. Simple withdrawal of labor by organized workers is rarely sufficient to enforce their demands, and therefore, they resort to violence or threat of violence to prevent other workers from entering the labor market and "undermining labor standards." Unionized labor markets, to the extent that the unions are successful in their goals, are islands of monopoly wage rates in a competitive sea. These islands can be sustained only by sea walls which keep the rest of the ocean out of their markets, thus forestalling the tendency for prices for similar skills to equalize throughout the economy.

The Power to Strike

Ordinarily, only government can enforce protectionist privileges over the long run, but unions have been granted unparalleled rights of private coercion by government. Unions are a form of restraint of trade because they deny the majority of workers an opportunity to offer their labor services at prices lower than the unionists demand. Successful unionists use intimidation to cut off the labor supply to employers until employers submit to union demands. As Henry George, the 19th-century economic writer, put it, "Those who tell you of trades-unions bent on raising wages by moral suasion alone are like people who tell you of tigers that live on oranges."

The presence of violence in labor disputes is not entirely undesirable, however, because it shows that unions do not have overwhelming power. It takes two or more parties for violence to break out. Many workers are willing to defy strikes, picket lines, threats, and suffer violence in order to stand up for their own freedom, and to work at wages that they find to be their best available alternative. This is preferable to the situation in England, for example, where unions have such overwhelming coercive power, and more people are imbued with collectivist ideology, so that few defy union rule in strike situations.

Violence also shows the incomplete power of unions because other organized producer groups like the American Medical Association, tree-pruners, cosmeticians, and so on, do not have to rely on strikes and private intimidation. Instead, they have licensing laws. In the event of encroachments on their market, they merely telephone the government for a policeman to restrain new entrants. If unions relied more directly

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on the public police force to restrain trade on behalf of worker cartels, the hoodlums and other specialists in violence would be less valuable to union officials. Unions then would look somewhat more respectable and less dependent on "undesirable" elements.

Unions in the Public Sector

Unions have grown rapidly in public sector employment since 1960 and government employees now are more highly unionized than employees in the private sector. About one of every two employees in state, local, and federal government is in a union compared to one of every six employees in the private sector. This creates special problems. Many observers have been inclined to say that unionism is permissible, even desirable in the private sector where it supposedly is a purely private matter, but not in the public sector. I do not share this sentiment, but there is a certain satisfying irony to our recent experience.

The National Labor Relations Act of 1935 specifically excluded government employees from its coverage, no doubt based on the opinion that only capitalists abused their "helpless employees," rather than government as an employer. But beginning in 1962, under President John F. Kennedy's executive order 10988 to promote unionism in the federal bureaucracy, there has been a gush of legislation and regulation to promote unionism and collective bargaining in the public sector. Proponents of pro-union legislation claim that government employment is just another industry, and that employees should receive the same "protections" as those in the private sector.

The irony is that the coercive privileges that politicians granted in 1935 to unions in the private sector have now come home to roost and confront politicians with the same defiant, coercive opponent in public employment. Government originally sanctioned union threats and force against private enterprises and non-union workers in the private sector, and now faces unions which are prepared to do the same against government itself. Governments that submit to coercive strikes necessarily govern with the forbearance of union officials, an unhappy arrangement which cannot last in the long run, especially in a democratic society.

A Question of Sovereignty

Special features appear to distinguish government from private industry and the first is the issue of sovereignty. One definition of sovereignty is the supreme and unchallengeable right of compulsion. A genuine sovereign cannot be forced to do something by a private person or a private agency and still be called sovereign. Whoever can force gov-

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ernment authorities to submit to his will *is government.*

Government officials of every political persuasion from Ronald Reagan back through our political history have denounced the use of union force against government. Franklin Delano Roosevelt, for example, said in 1937, "A strike of public employees manifests nothing less than an intention on their part to obstruct the operation of the government until their demands are satisfied. Such action looking toward the paralysis of government by those who have sworn to support it is unthinkable and intolerable." A public-sector union, on strike, announces its intention to cut off the government's supply of labor and shut down its operations until its demands are met. This can hardly meet with approval by government officials or by the general community.

A second major difference between government and the private sector is that most government services are paid for through general taxation. Taxpayers are forced to pay, whether they want the services or not. In the private sector, buyers have the option of refusing to pay for a good or service, or else buying it from someone else. No private enterprise, excepting unions, can legally extract revenues through the use of force; they must cater to buyers through voluntary exchange. Union power in the private sector also is constrained by management's incentive to hold down costs and stay competitive in the marketplace. Governments do not face the same intense pressure for efficiency. The issue can be termed taxation without representation. Unionists, in effect, say that the government (ultimately the taxpayers) is not paying them enough and that they intend to force government to pay them more. If there is not enough money, raise taxes. If the government attempts to hire replacements to perform the services at lesser expense, organized workers use threats of force or force itself to prevent the substitution.

The Market Cannot Serve if Competition Is Forbidden

The third issue turns on the necessity of certain governmental services. The marketplace cannot protect the public very well when there are no good, legal alternatives to government-supplied services. In some cases the inherent nature of the services, arguably, can limit competing suppliers, in accord with the concept of so-called natural monopoly or pure public goods. But usually government artificially prohibits or severely handicaps private competitors. Examples are fire protection, garbage removal, schooling, hospitals, public utilities, and even prison-keeping. Private contractors can supply these services and are al-

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lowed to do so in some cases. Naturally, they are more efficient than government bureaucracies, generally at 60 per cent or less of government costs. The presence of multiple producers vastly reduces the vulnerability of citizens to extortion by public employees who operate in a centralized system of government monopolies.

Most observers argue that protective services by police and courts are unique services which can only be provided by government. In fact, law and order is the basic purpose for the existence of government and only anarchists argue otherwise. If we can get along without public protection from aggression, there is no reason to have government in the first place. No mayor or governor can stand idly by during a police strike while society reverts to lawlessness. A police strike is very much like the aftermath of a natural disaster. Owners are not around to protect their property after a natural disaster and even normally law-abiding citizens find irresistible the temptation to take something. Looting and stealing rise sharply unless something is done. Citizens form vigilante committees or, more often, the National Guard is called up.

Collective bargaining by the police, or any other group of public employees, and strike threats are simply two sides of the same coin, as any realistic person must admit. There are other differences in degree between the private and public sectors which we might discuss, but they need not detain us here.

The Industrial Relations Community

Now let us turn to the industrial relations community. The industrial relations community consists of the thousands of personnel directors, labor lawyers, and industrial relations scholars who write about unions and collective bargaining. Why does this community have so little to say about the economic theory of unions and the role of labor violence? The answer, I believe, is threefold: It consists of one part honest ignorance and confusion, one part class interest, and one part financial self-interest.

Most people in industrial relations are ignorant of the truths of economics, and economists are partially to blame because they have failed to explain things clearly, sometimes because economists have lacked the courage to point out unfashionable truths. But a very important element in accounting for the ignorance of economics on the part of the industrial relations community is willful. The intellectual community fails to look frankly at unionism and labor violence because of an emotional attachment to the view that employees are exploited under free market arrange-

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ments, receiving too little of national income, while "fat investors" receive too much.

Union violence is exciting in and of itself for many intellectuals, who generally are bored by stability and gradual material progress. Labor violence also provides intellectuals with support for their view that workers are alienated from the economic system. Workers are not alienated. A minority of employees merely respond to the incentives that they face under a legal regime in which unions are tacitly allowed wide latitude to use coercion. Strikers convicted of vandalism, assault, and other crimes are routinely reinstated in their previous jobs with back pay. This is a formula for irresponsibility. These incentives and immunities account for the commonplace threatening and violent behavior of organized workers, not alienation from their work or the economic system, as the academic and intellectual left typically assert.

Even more important than romantic visions of social change and ferment in accounting for the failure of industrial relations analysts to adopt the correct theory of unionism is the fact that our system of mediating, conciliating, arbitrating, fact-finding, and the whole panoply of machinery often labeled our "system of industrial jurisprudence," provides power and income to the academic community. Industrial relations types perform as expert witnesses, directly shape a turbulent hodgepodge of labor law, and derive handsome fees in the process.

A Vested Interest

Consider arbitration, for example. An arbitrator must maintain his acceptability to unionists, as well as managers, to sustain this source of income; otherwise the parties will choose other arbitrators or settle their differences directly, saving the expense of arbitration. The situation is analogous to a court system in which each judge would derive his income directly from the disputants and would thus take their reactions into account in his decisions.

Concepts like "past practice" and "common law of the shop" were introduced so that arbitrators could decide more grievances for unionists. Employers now are saddled with a kind of arbitration which they probably never expected to pay for. Although arbitrators deny that they are concerned about rendering at least 50 per cent of their decisions in favor of union grievances, it is well known that commercial organizations issue ratings on arbitrators and prospective arbitrators, basically in terms of "pro" or "anti" union. The incentives for arbitration and other consulting income help to explain the bland nature of the academic literature in industrial relations, where no scholars are known as "anti-

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union." It simply pays to be confused. Or, as Thomas Sowell has remarked, "The advantage of intellectuals is that they are not perceived as interested parties." The hard truths of economics are inconvenient in such an environment.

Conclusions

Labor violence is an inevitable side-effect of government-supported worker cartels in an economy that has large numbers of managers and workers who refuse to cooperate with strikes and union coercion. So what can we do about this unsatisfactory state of affairs? There are a variety of competing proposals, many of them excellent, but I want to remind us of what our long-run objective ought to be. Our aim should be to restore the rule of law by repealing the entire muddle of labor laws and regulations which have effectively exempted unions from the rules which apply to everyone else. We should repeal all the laws, statutes, rulings, and regulations which exempt unions from the peaceable behavior expected of everyone else. Unions essentially are immune from contract and tort law and they should be brought back under it. Justice should no longer peek and ask whether or not a union man committed a violent act in pursuit of union purposes. A violent, illegitimate attack is an act of aggression which ought to be punished regardless of its announced purpose.

We cannot declare that this is a free society until everyone is free to accept the best available offer for his or her labor, best in that person's own opinion, free from threat, regardless of how much these decisions supposedly harm the higher-income-people represented by union officials. The benefits of unionism do not outweigh the costs of union violence. There are no benefits from unionism for the great mass of working people, only costs. Unions are not public servants that offset the excesses of capitalism, but sectional interest groups with coercive privileges. Peter Wiles' indictment, written in 1955, says it well:

> It is truly amazing that anyone should suppose this crude, selfish, violent and piecemeal process to contribute to social justice. It is, when we come to think of it, incredible that the building up by some salary and wage earners of monopoly power, in greater degree here and lesser degree there, should improve the distribution of income among them all; so incredible that the supposition has only to be directly given utterance to be dismissed.

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Ernest G. Ross

The Price of Education

IF someone stopped you on the street and told you that the primary reason for the poor quality of education in America is its *low* price, you'd probably laugh in his face.

You would consider his contention ludicrous.

After all, everyone knows that education is more expensive than ever. Everyone knows that the costs of education go up with virtually each semester. Everyone knows that costs for teachers, administrators, tuition, books, supplies, and maintenance are at all-time highs.

Yet, with all the money thrown at education, from kindergarten to graduate schools, the quality is not up—but down. So it seems that if there were a statement to be made about the relationship of costs to quality, it would be that the *higher* price of education is somehow eroding its quality.

But that really doesn't make sense, either.

After all, it is well-known in economics that higher prices tend to reflect increased demand. The increased demand brings more producers into the field who must work to *improve* the quality of their product in order to compete, in order to retain and attract new customers. Producers also attempt to improve their efficiency, which can often lead to competitive price reductions. So it would seem that our increasingly high prices for education should have spurred more competition in the field

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and resulted in a raising of educational quality, and perhaps even to reduced costs.

As we all know, that has not happened. Why not? And why would anyone want to suggest that the present price of education is too *low*?

The clue to the answers lies in the fact that there is a great difference between *governments'* paying for education and private *individuals'* paying for it; there is a vast difference between prices in a free market for education and prices in our modern public educational system.

Taxpayer's Cost

Almost all education in the U.S. is publicly funded (there are only five million students in private schools[1]). The taxpayers' cost of public education is over $100 billion a year.[2] This government funding is a crucial intrusion into the market price of education. It is an intrusion which steadily raises the price to taxpayers (now put at at least $2200 per student per year[3]), but *reduces the perceived price* of education to the educational establishment.

There is no mystery about the first point: Every taxpayer in the nation understands that education has taken a bigger bite out of his paycheck almost every year. It is rare when a state government or local school district cuts the taxes needed for education. Federal funding of education has a comparable record of escalated costs, especially since the Great Society days when Congress passed the Elementary and Secondary Education Act of 1965 and instituted massive student loan programs which eventually, because it was so easy *not* to repay loans, became the equivalent of a billion-dollar student welfare program.[4]

As to the second point, the educators' lower perceived price of education, that is not obvious. In fact, if you asked anyone in the educational system, he would undoubtedly be quite shocked at the idea. He would also be insulted that you would suggest he was unaware of rising educational costs.

But the economic reality is that public educators *do* look at costs in the system very differently. Here's why.

Friedrich A. Hayek, the great Austrian economist, pointed out that only under a free market will the price of a product or service function to "automatically record all the relevant effects of individual actions" and thus serve as "the guide for all the individual decisions." Further, "The important point here is that the price system will fulfill this function only if competition prevails, *that is, if the individual producer has to adapt himself to price changes and cannot control them.*"[5] (Emphasis added.)

But what if there is no truly free market in education? What if the

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educational establishment has a way of circumventing prices and eliminating any need to adapt to them?

If that is true, then the price system would not fulfill its function and would not automatically record the effects of the actions of the individuals responsible for education.

Unfortunately, this is exactly the case. The educational establishment has a mechanism for evading prices: the power of taxation.

Prices Distorted

The power to tax (whether directly, as with local school districts, or indirectly through the state or other branches of government) guarantees public educators a refuge from the market. The power to tax in order to support teachers, schools, and dozens of attendant costs, permits public educators to *misperceive* prices because prices are subsidized.

In the minds of people subsidized, the subsidized prices are regarded as equivalent to *lower* prices. This is so because a subsidized price bears the same, light burden as a lower price. In other words, those subsidized must pay attention only to that portion of costs which are *not* subsidized. And in the case of most public education today, almost *everything* is subsidized. Not teachers, not administrators, not even students must directly shoulder what would be true market costs.

It is worth noting that there would be little *economic* difference to the educator between prices which he could artificially hold down by price controls, on the one hand, and, on the other hand, subsidized prices. He would see both as *lower* prices—lower than what he would experience directly in the free market. Interestingly, this would be true even if in the free market the *total* price of educating a student were less than it is now. Because educators actually feel only a fraction of the effects of prices (since almost *all* education is subsidized), the free market price of education would have to be *near zero* for the educator to experience the same, ridiculously low price which he now does!

The only other way educators could achieve this artificial price effect would be if they could dictate educational costs—say, for example, by having the power to require utility companies, textbook publishers, lab equipment manufacturers, and so on to *give* educators what they needed. But then the question would arise, if we are not to drive those suppliers into bankruptcy, who would compensate them? Probably it would be the taxpayers. So, in such a situation, we would come full circle. While there would be no apparent subsidy to the educators, at least not in terms of hard cash, it would exist, one step off stage.

Under our present subsidy sys-

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tem, educators have opted for the "backdoor" method of controlling prices—controlling the *effects* of prices rather than prices themselves. But the result is exactly the same: to eliminate direct accounting to the market, which free prices reflect.

In one sense, any coercive interference in the natural functioning of the price system can be regarded as a form of price control inasmuch as the essence of a price control is an effort to *mask market prices*. In the sense that subsidies achieve this masking, they are as much price controls as are prices by edict.

The subsidy-masked "low" price of education has remarkably negative effects.

1. There is little incentive to control costs. When costs are already perceived as low, it is natural not to worry about them. Why sweat and toil to reduce the costs of education when one feels he will not substantially suffer by leaving things as they are? Even the threat of a taxpayer revolt is not all that frightening; after all, taxpayer revolts have a history of fleeting success; the attitude is to "wait out" the revolt and things will return to normality!

Even where communities and school districts have made efforts to cut costs, it must be remembered that the efforts remain rooted in a basically noncompetitive, subsidized system. Only where pricing has been partially freed of the system, as with "performance contracting" (where some services are competitively contracted out to private firms), have lasting savings been achieved. Despite these successes, they are necessarily stunted; the partially free never grows as well as the fully free.

2. There is little incentive to promote innovations in education. Since educators do not have to bear the true price of education on their shoulders, they feel that innovations are not worth the price. This is not exclusive to educators; it is a generally applicable economic fact. People innovate much more readily when they feel the necessity of giving people "their money's worth"—the worth which higher prices demand if the potential innovator is to keep his customers. If he does *not* innovate, in a free market the higher prices he's receiving will eventually go to someone else who *will* innovate.

3. There is little incentive to provide quality in education, to match results (performance) with intentions (educational goals). The principle is the same as in point number two above. If educators do not experience the prod of true market prices, if they don't have to *answer* to the things prices say about how well they are doing their jobs, if they can coast on the feeling that they will get paid unless they are grossly incompetent rather than competitively compe-

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tent, they will not feel impelled to give students their money's worth in quality.

4. There is little incentive to respect the student. The student is the "customer" of education. In a free market, when educators must always perceive the full cost of education, there is strong reason to treat the customer well. If educators do not treat a customer with respect, the customer is apt to shop elsewhere for his education (or in the case of young students, the parents are apt to shop elsewhere). This impetus simply does not exist when the price of education is misperceived to be lower than it really is. The attitude becomes, "Why should I respect this customer when he's paying so little anyway?" By analogy, a storekeeper will put out *much* more effort to keep the purchaser of a television or other expensive items happy than he will to keep a nickel-and-dime customer happy. Greater effort to please and show respect for a customer follows a perceived higher price from the customer; a perceived lower price generates less effort in that direction.

This last point is particularly important because it is a psychological orientation which feeds back, strongly affecting the other three points. Lowered respect for the student-customer means that *at the outset* of its relationship with students (and their parents), the educational establishment has what one might call a bad attitude, an attitude which says, "Don't worry too much what all this costs; don't worry too much about doing anything new; don't worry too much about quality—because the customer isn't really worth it!" In other words, a misperception of lower prices paid by the student *economically* translates into a lower estimate of the worth of the student and consequently to a lower desire to cater to the student's needs.

In a subsidized system, students and parents *also* tend to misperceive prices. When they do not have to directly bear education costs ("Education? It's *free*!"), they will see the price as very low—even though they consciously know that it all comes out of their pockets in taxes. This misperception is a natural reaction and leads to lowered respect for the educational system. Human beings just never muster the same respect for things they perceive as cheap, i.e., very low priced—because a perceived low price carries the implication that the good or service is *easily replaced*. We do not value easily replaced items as much as we do hard to replace items. Value is what prices in a free market accurately reflect. Under our tax-subsidy system, the reflection is badly distorted.

Do we hear teachers today complaining that students and parents "don't care enough," don't respect the education system enough? Of course!

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It's merely the other side of the coin from the complaints of students and parents that teachers "don't care enough" about doing a good job. The coin of this educational realm is: subsidies discourage *anyone* from giving proper care and respect!

Market Principles Apply

Let me emphasize that the principles of pricing as applied to education are principles of economics which apply to *all* fields of production and services equally. There is a tendency, for various reasons, for educators to believe the market does not (or should not) provide *their* professions with price incentives. All one can say to that is that it is the same argument every monopoly in history has used (most recently heard from utility industries). But there is no special reason why education should be immune from the market—unless, as Robert Ringer so aptly put it in his book, *Restoring the American Dream,* one believes the primary purpose of a government education is to make sure a child "will grow up learning . . . from the government's point of view."[6]

And let me emphasize also that, yes, there *are* many good, conscientious people in our educational establishment. This paper has not been meant as an attack on them. But from an economic viewpoint, the result of a wrongly viewed estimate of the price of education will, in the long run, tend to result in all of the profoundly negative effects mentioned. And it is the conscientious educators, the most competent in the field, who suffer the most. It is they who must carry more and more students on their backs through the deepening swamp of a publicly-subsidized system. It is they who must increasingly feel the weight of trying to provide a good education to students while surrounded by a tenured, bureaucratized establishment which feels less and less incentive to improve or maintain educational standards of excellence. It is for the educators of ability who are not afraid to let their merits speak for them—and for the students—that we must return educational pricing to the free market. It is for the best *in* education, and the best that can *be* in education, that we must end the subsidies which eventually encourage the worst in education.

—FOOTNOTES—

[1]John Chamberlain, "The Public School Monopoly," *The Freeman,* September 1982, p. 573.

[2]Samuel Blumenfeld, "The Victims of 'Dick and Jane,' " *Reason,* October 1982, p. 22.

[3]Roger Freeman, "Education Tax Credits," cited by Chamberlain, *op. cit.,* p. 575.

[4]Thanks to President Reagan, thousands of student loan defaulters are finally being made to pay back their loans—though the administration admits millions of dollars will never be recovered.

[5]Friedrich A. Hayek, *The Road to Serfdom,* University of Chicago Press, 1944, p. 49.

[6]Harper and Row, New York, 1979, p. 179.

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Robert LeFevre

THINKING ABOUT FREEDOM

HUMAN BEINGS, in their present societies, are like groups of children, playing with their toys in the sand. They shout and scream a good deal about favorite notions and invariably confer upon their playthings, such as dolls, tin soldiers and building blocks, certain human attributes.

On occasion, some child manages to win the cooperation of a number of his playmates and for a brief season, his view of the desirable game plan is acted out by most. At such times, the childish uproar is muted to occasional shrill accusations and hoarse denials.

Sooner or later, the arrogance or dominance of the leader or just the plain boredom of doing as one is told, mars the apparent harmony. On these occasions there is often a complete revolution; the game plan is thrown out; the dictates of the leader are rejected and the human attributes assigned to the inanimate playthings are cancelled in favor of an entirely new set of rules and suppositions.

Sandbox organizations for those ranging from four to six years can hardly be viewed as dangerous or threatening. But it is sobering to note that adults have failed to progress much beyond the kindergarten stage in seeking to organize their own societies.

Much the same kind of boisterous

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posturing and shoving takes place in the adult world. Leaders strive to attract support by ascribing to the electorate attributes of helplessness and poverty of such magnitude as to shatter hearts of stone. Then rules of behavior are marshaled, enacted and enforced by huge armies of regulators. The real nature of human beings is laid flat on the anvil of political ambition and hammered into a shape deemed compatible with the current leader's "grand design."

In the adult world, tragically, these game plans do not vanish in the evening mist when supper-time arrives. They endure into the next day, week or year and sometimes persist for centuries.

Social Needs

Societies are essential. We must have them because no single human being has enough wisdom, strength or time at his disposal to do all that needs doing if he is going to survive even marginally. Our difficulty, as human beings, is that while we can readily admit to our own frailty, each of us seems to cherish a plan, more or less secret and unique, by means of which (if only others would follow) we could create a paradise for everyone else.

We might even say that our difficulty as human beings is that we are human.

It is human to err. We grow up with a marvelous sense of uneasiness. We have made mistakes and are aware that we could make more of them. Curiously, we also appear to be endowed in a parallel manner with confidence. While we are uncertain as to the best way to manage our own affairs, most of us are locked in concrete when it comes to how others should behave. It is astonishing that so many who are willing to admit to uncertainty concerning themselves are so rigidly certain of how the affairs of others should proceed.

This inconsistency is both persistent and profound. The questions raised come to the fore immediately, yet the most tenacious inquiries arch all that is generally understood, into a world not clearly seen or comprehended.

What *is* a human being capable of doing? This obvious query, however answered, is followed by: What *should* a human being do? A hundred thousand experiences and twice that number of attempted answers have done more to confuse than to resolve.

Reduced to simplicity to the degree possible it comes down to this: Each human being has been endowed at birth with the ability to think his own thoughts and to act them out. Even though his birth entailed obstacles too many to overcome in what we like to think of as a "normal delivery," to the degree that the human individual lives, to

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that degree does he think his own thoughts and act them out.

His thinking apparatus, the brain, may be damaged or impaired one way or another, but the fact holds. No one but he who has it can make use of it. His ability to act may be hampered by lack of limbs, distorted arms or legs, grotesqueries and malformations of any and every kind. The truth still holds. To the degree that his physical person can act at all, it acts under the impulses of his own purpose and intent.

Self-Control

However well or badly we may function, every human being individually controls his own thinking and muscular energies from within himself. If he seeks to impose controls on other human beings, he is compelled by his own nature to reach out beyond himself. Nature has endowed each of us with self-control. Nature has not endowed us with control of others.

It is reasonable to assert that man's inhumanity to man arises from this fact.

Could I control others by a simple exercise of my own will I would have no reason to inflict control, punishment or death upon another of my kind. Since my wishes would control others, each and every person would gladly do my bidding. Unhappily, for me, this isn't true.

Every other person has the same kind of control I have and is as eager for me to act as he wishes, as I am to have him act as I wish.

The result is conflict. And from the days of Plato to Marx, stretching backward and forward from those polarities, the pages of the human record run red with blood and echo with the cries of anguish emitted by those who, at the moment, found themselves under the sway of some human being not content with self-management; seeking always to manage others in a way nature has not bargained for.

What *can* a human being do; what *should* he do? The questions beg consideration of an abstract idea called *freedom.*

Freedom Is a Concept

There is no such *thing* as freedom. Freedom is not an object, it is a concept. No one is compelled by nature to accept any other person's concepts. Since the days of Lagash in Mesopotamia and the emergence of Urukägina, humans have been conceptualizing about freedom and as yet have reached no general conclusion as to what it means!

Franklin Roosevelt and Winston Churchill met at sea during the era containing World War II and pronounced what they termed the *Four Freedoms.* Freedom from want and fear; freedom of speech and of religion. The proclamation apparently triggered some semantic games and

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savants became enraptured with the differences between freedom *from* and freedom *to*. To have neither want nor fear was freedom *from*. To speak and worship as one pleased was freedom *to*.

With pedantry ablaze the hair-splitters went to work to further fog an issue already cloaked in mist. If every human being on earth had a right to be free *from* want, did any human being have the countervailing right of keeping what was his when another claimed he *needed* it to escape want? And if freedom from fear was to become world-wide in scope, what of the fear engendered by the decree that the claim of the needy had a higher priority than the claim of the owner? Was grand theft, on behalf of the poor, to become the order of the day?

As for the freedom to speak and to worship as one pleased, was there also freedom from speaking and from worshiping? Few assailed the principle, the still unspoken issue: What is freedom in itself? What concept does the word invoke?

Human Energy Motivated

Rose Wilder Lane was one of the few who glimpsed the target. She recognized that the question had to relate to the employment of energy. Who, in fact, *controlled* how much of what? Who, assuming a free society, *should* control how much of what?

She sought to divide energy into two broad categories: human energy and non-human energy. She saw that human energy always operates under the control of each living individual. In that sense, each human being is born free. He may not control his energy wisely. But he controls it, even should he run amok. Thus, even the infant, almost wholly dependent upon the adult world for his survival is still free, to the degree that he functions at all. His will is supreme over himself. If an infant decides to cry and you, his parent, decide that he will remain quiet, whose will controls what the infant does? You have the ability to gag the child, to scare the child, to punish the child and even to kill the child. But unless you back up your wish for silence with force of some kind, the determined child will not be still. He rules himself.

This clearly establishes that each human being is free by his nature. To alter that basic, natural condition, you must reach out beyond yourself and physically cancel the control the child naturally has. It also establishes that humans are both frail and vulnerable to outside forces. Each of us has the *ability* to inflict cruelty, and even death upon others. These are things we *can* do. But, *should* they be done? Reason bids us be patient. The answer to *should* is much farther down the road than the answer to *can*.

Seen in the light of energy control

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and management, the semantic dispute as to freedom *from* and freedom *to* including freedom *of* is swept aside. Whether one is free to speak or free from the necessity of speaking, the preposition becomes no more than a direction indicator and we may ask whose energy is involved? If I may speak or not as I please, then it is clear that I am as free as when I was born in respect to speech. The question of my ability to speak does not arise. Nor does the wisdom of my thoughts once uttered.

A human societal condition in which each person is at liberty to express himself or to refrain from expressing himself is within the natural order. Why? Because that is his natural condition due to circumstances arranged by the forces of nature (non-human energy) rather than by the forces of humanity (human energy).

But what if I find myself within a societal framework in which I will be punished if I express myself as I might desire? Then it cannot be said that I have freedom *of* speech or freedom *to* speak . . . or freedom *from* imposed controls on my speech. Instead, I have freedom to speak only in certain ways, at certain times, avoiding certain words and in support of certain ideas exclusively.

This condition, in which I may speak only in specified ways and about specified subjects at specified times, is contrary to nature. Such a condition can only appear because human beings have reached out beyond themselves (physically) and proclaim that they will impose pain, distress and sometimes even worse punishment not excluding the death penalty, if anyone defies their dicta.

Freedom of Speech

Freedom of speech is natural, the product of non-human reality. Restraints and controls imposed upon any person's natural ability to express his ideas is the product of humanly manufactured and supported *human* intervention.

The difficulty in defining freedom now appears. Is it desirable for everyone to say whatever he pleases, in any manner that pleases him, at any time whatsoever? The time-worn example of someone shouting *fire* in a crowded theater which is not burning provides a classic example. Clearly, such an expletive at such a time is not desirable.

Then, let us forthwith proclaim an edict and agree to punish those who may commit a trespass with what they say or how they say it! Very well. But, as we do so, freedom of speech is cancelled to some degree.

This is the difficulty. Because freedom to speak is a natural condition, it appears to be desirable. Therefore, most persons proclaim their support. But at the same time, if we are to be at the mercy of those thoughtless, reckless or even stupid

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members of society who may abuse their natural birthright, we also see restraint of speech as a desirable objective.

This is scarcely definitive. In seeking to define the true nature of anything we must not let our wishes intrude. Whether free speech is desirable or undesirable does not define it; it merely conveys our personal and subjective viewpoint concerning it. And our difficulty is that in this case, as *in most other cases,* we are ambivalent. We favor free speech, except in those cases where we don't.

We end by defining free speech as freedom to speak within societally imposed limits. Even the Russian Constitution sets forth the identical proposition. Under it, citizens of the Soviet Union are free to speak in support of socialism and the government will even furnish the paper if the statement is to be committed to writing.

But we are not ready to take a position as to what people *ought* to do. What we are prepared to see is that the questions of *to, from* or *of* are digressions which take us away from the real question; that of the expenditure of human energy. To discover whether or not a human being is free, we must ask whose energy is at work. If the individual is using his own mind and employing his own energies—singly or in concert with others who likewise are doing the same—then he is free. If he is following the dictates of other human beings, not because he wishes to do so, but because he is restrained by threats and force capable of being applied, then he is not free.

Free or Slave?

It follows that if you think and act as you please and thus practice the self-control with which nature has endowed you, you are free. If, on the contrary, your thinking is directed by my edicts and you do as I command because anguish and travail will be your lot if you disobey, then you are not free.

While it could be true that you will benefit more by obedience to me than by following your own bent does not teach us the nature of freedom; it teaches us the nature of opting in one's own favor. Thus, freedom means self-control; a loss of freedom emerges because control is imposed on you by a person other than you.

Freedom has nothing whatever to do with benefits to be gained. Freedom is a human condition that exists only in the abstract.

Can a free person do anything he wishes? Obviously not. If a person climbs a cliff, spreads his arms and leaps into space, will he fly like a bird? No. He will crash at the base of the cliff. Doesn't this prove that the abstraction of human freedom has little merit? If a person is really free, why can't he fly?

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Leaping from a cliff does not mean that a person isn't free; indeed, it demonstrates that he is free to leap or not to leap as he pleases. The fact that he can't fly proves that he is not a bird.

The concept of freedom is valid only within the natural limits which have been imposed upon man by nature. Loss of freedom arises if and when additional limits are imposed by others of his own kind.

Thus, many years ago, and well aware that leaping from a cliff could bring disaster even to Icarus, men began to "think the unthinkable," reasoning that if they created the appropriate device, they might yet fly. The result is aviation. Today, because men were free to leap from cliffs and to think what they pleased, they now fly farther and faster than any bird. They studied the natural order and learned that gravity could be harnessed. So, today, they climb up cliffs and gripping a hang-glider they soar like eagles. In a jet aircraft, in a matter of moments they can fly higher than Mount Everest in air-conditioned comfort.

This means that freedom, although an abstraction, is meaningful. Because we had the example of many an Icarus, we were free enough to think and act, to run risks, and sometimes to fail. But, finally, we flew. In the end, we did it right.

If a person walks into a forest and lightning strikes a tree which falls on him, pinning him to the ground, has he lost his freedom? No, he has lost his mobility. He is still free in the sense that his plight arises between himself and the laws of nature.

If a man is cornered in the African bush by a hungry lion, has he lost his freedom? No. He is merely confronting a hostile manifestation of nature. His battlefield is one ordained by nature, not by intruding humans.

If a man is felled by a virus and ends flat on his back in bed, has he lost his freedom? No, his health is imperiled, but he is still free. Again, the arena is a natural one.

Working with Nature

In this sense, survival on this planet is a struggle *against* the forces of nature. There are many natural things that could injure, impair or kill us. What experience and reason have taught us is that nature is neither kindly nor malevolent. It simply is. The more we can learn about the nature of things as they are, the more we learn how to harness and work with nature, rather than simply opposing it. It is because we are naturally free to think and act as we please that we are capable of learning these lessons.

Imagine, if you will, a single human being living on a deserted island. You will have to imagine it. Human beings are endowed with

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gender, either male or female. For a human being to arrive on this troubled sphere, we can reasonably conclude that he had *two* parents. Further, in view of the relative helplessness of the infant, we can conclude that his parents (or some other adults) did a great many things to and for the infant as he was growing to maturity. Lacking such attention, nature would probably have finished him off.

But let us imagine a mature Crusoe, shipwrecked on a fertile but deserted island. There are no other human beings present. And in this imaginary example, none will ever come.

The concept of freedom, as I am seeking to define it, would probably never come to our Crusoe's mind. He might dream of escaping his island but there would be no likelihood of thought concerning escape from the presence of other humans. Indeed, he might view freedom as escape from his island so he could be in the company of others. He might view escape from rain, escape from wild animals, escape from famine and so on as a kind of freedom. Indeed, in this case, the question of freedom could be answered by *from*. A synonym for this kind of freedom could be: rid of.

By learning about and working with nature, our solitary inhabitant might *rid* himself of a number of unwelcome effects nature might inflict on him. But his relationship with others of his kind is non-existent and always will be.

A Societal Context

This means that the particular context in which I use the word freedom, is a *societal* context. No single human being ever has need of it. No more than a single human being has need for the word theft, or murder, or war, or ownership, or profit. Lacking the presence of other humans there can be no theft nor murder nor ownership nor profit nor freedom. Nothing can be stolen if there is no person from whom to steal. Nothing can be owned if there is no one else who might own the same item. No one can have his natural ability to think and to act impaired by other persons, if no other persons are or ever will be present.

This is the crucial, critical area. By his nature, each individual has the natural ability to think and act as he pleases. But man's life span is short, his wants almost endless. To survive, not only in the cradle, but as an adult, depends upon the efforts others will make, as well as upon his own. Even the thief, who is totally non-productive, cannot be a thief if others do not produce what he can steal.

Freedom is a natural condition; each individual controls himself.

It is also a condition of total risk. Each individual has the ability to

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impose cruelty and even death upon his fellows. This ability conceals a two-way street. Each individual is vulnerable to the thoughts and actions of others of his own kind. A free society is a society in which anyone could do as he pleases with himself or *with others*. Given a "society" of only one person, risk between all persons disappears. In such a society, the word freedom could not possibly have a social context.

But now we imagine a society in which total freedom reigns yet there are many persons in it. Each individual can think and act as he pleases; at the same time, any other person has the ability to impose upon him by a little or a lot.

Take one further step. Imagine a free society in which the capacity for man's inhumanity to man is *not* impeded by any human organization . . . but yet the violation of one's person or property *does not occur*.

Such would be a free society, and only such. A society in which free men interact, retaining all their natural capacity to be free, and yet do nothing to limit the freedom of their fellows, ah, that is the goal yet to be achieved.

IDEAS ON LIBERTY

Government's Limited Role

TRUE liberty lies in recognizing that each man's vital force is his own, that it may not be impinged upon by any other man or any government. His volition, his awareness, his conscience are areas of personality where the individual must fight his own battles, where he becomes master through discipline or slave to primitive impulse. It follows that the whole chore of government is to protect the human personality, not to control it or to coerce it against its nature, to protect it from all sources of physical violence, to insure the execution of serious agreements, to adjudicate wrongs, and to provide a mechanism for its own limitation. Men may yet generate profound, hitherto unknown, enjoyments and satisfactions. If they do, they will do so in and of themselves, under the protection of government conceived and administered in harmony with biological and spiritual requirements.

The conservative desires to preserve the possibilities and the enjoyments of life. Volition, choice, awareness, conscience—these are the sweetest, most promising attributes the conservative knows. If their promise is to be fulfilled, government must be protective and subservient to them. Expansion of government beyond these limits literally renders the life stream noxious and unhealthy.

HAROLD B. ELSOM, "Freedom—A Biological Necessity"

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THE STATE AGAINST BLACKS

WALTER E. WILLIAMS, a good economist who happens to be black, is not one to call names or to impugn motives. So, when he entitles an excellent book *The State Against Blacks* (New York: New Press, McGraw-Hill Book Company, 183 pp., $14.95), he does not mean to imply that conscious racial discrimination is being practiced. The big point that he makes, with specific chapter and verse, is that most of our government economic policies hurt the poor in general by depriving them of the opportunity of hooking in to what Isabel Paterson called the "long circuit of energy." Insofar as blacks are more heavily represented than whites on the lower income brackets, they suffer more proportionately.

Williams does not deny there is such a thing as racial discrimination. He merely thinks it plays very little part in most economic decisions. Banks don't "red line" certain inner city residential areas because they are heavily populated by blacks and Hispanics. They do so because mortgage foreclosures are a big statistical threat. Merchants in ghetto areas charge their customers higher prices not as a way of acting out their prejudices. They have to charge more because losses from business-related crime are greater in ghetto environments. Insurance premiums for fire and theft are a heavy cost of doing business.

The very fact that there is "block busting" by blacks in neighborhoods once exclusively inhabited by whites

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has less relation to color than to economics. What happens is that property owners, regardless of their race, find that they can get more in total rental volume if they split their space into smaller units for disposal to poorer people who will put up with being crowded. The displaced whites move to suburbs where zoning, a political phenomenon, keeps poor people from buying property no matter what percentage of melanin they may have in their skins.

The Impact of Minimum Wages

In a beautifully persuasive chapter called "Minimum Wage, Maximum Folly," Williams demonstrates that minimum wage laws hit inevitably at marginal workers who cannot in the circumstances do enough work in a given hour to make a profit for their employers. The consequence of the minimum wage is that nobody will hire people who haven't yet learned certain skills or absorbed certain disciplinary lessons. It is purely accidental that the worst negative effects of the compulsory minimum wage are borne by nonwhite teenagers, followed by nonwhite males in their twenties.

White youths do better than blacks because they happen to be more highly qualified for jobs for reasons that go deep in history. In coming north to unfamiliar surroundings in ghetto districts, black kids may lose two or three years of schooling. The taxes in inner cities are not sufficient to build the best schools or hire good teachers capable of keeping kids off the streets. Busing doesn't help, for it creates strains that affect classroom discipline and attention.

Good teachers won't put up with "blackboard jungle" conditions. Forced to the streets, black youths discover it is easier to steal or sell drugs than it is to crack the minimum wage barrier. It is as simple as that, but our politicians can't see it. The state, in passing minimum wage legislation, has tried to be "compassionate," but it has only succeeded in forcing the poor of whatever color to seek relief by way of "entitlements" that drain the economic system of savings that might otherwise have been productively employed.

Occupational and business licensing, which raises the cost of entry into a business or profession, is color blind even where its hidden intention may be to exclude blacks from certain fields such as plumbing and work on the railroads. The justification for government regulation is usually stated as a desire to protect the public safety or morals and to keep out unscrupulous practitioners. But the effect of regulation, as something that is often distinct from its intention, is to limit job opportunities.

The poor, who can't raise the money to pass licensing exams or to fight their way into exclusive unions,

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are hurt no matter what their ethnic backgrounds may be. If more blacks are affected than whites, it is once again due to the fact that they are more numerous in a low income class category whose ethnic components have been changing ever since the Irish, the Jews and the Italians were complaining about discrimination.

Taxicab Medallions

The taxicab industry gets special attention from Williams as something that, with bank finance, ought to be open to anybody, white or black, who can raise $5,000 to cover the operation of a single vehicle. Personal business skills needed to become a taxicab owner-operator are minimal. But in many communities the number of cabs that are allowed to operate is severely limited. In New York City a cab driver must have a medallion before he can legally take to the streets. There were 13,566 medallions issued in 1937, sold at $10 a throw to all drivers operating in the city at the time. During the war 1,794 medallions were returned to the city by owners going into the army or navy. These have never been reissued. So the licensed city cab fleet stands at 11,772.

The number of officially permitted New York taxis may have been right for 1937, but for 1983 it is another story. A cab medallion in New York now commands a market price of $60,000. New York banks will lend up to $25,000 for a taxi medallion. With their monopoly position the legitimate cab drivers can afford to turn down trips to ghetto areas. So a gypsy cab industry has grown up to service the poorer districts of Harlem, Bedford-Stuyvesant, Brownsville and the South Bronx. The gypsy cabs are tolerated, and they make money despite the menace of crime in dark streets. But officially prescribed rates, despite the gypsy competition, remain unconscionably high for most cab riders in the greater city.

It follows from their economic circumstances that few blacks can afford $60,000 for a New York medallion. In Washington, D.C., it is different. There a poor black can set up in business with his own cab if he raises $25 for a license and $5,000

John Chamberlain's book reviews have been a regular feature of *The Freeman* since 1950. We are doubly grateful to John and to Henry Regnery for now making available John's autobiography, *A Life with the Printed Word*. Copies of this remarkable account of a man and his times—our times—are available at $12.95 from The Foundation for Economic Education, Irvington-on-Hudson, New York 10533.

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for the cab and insurance. Black ownership of cabs in the District of Columbia comes to some 70 per cent. This figure, though it is a rough estimate, is enough to make Williams's point about the need for open entry. Williams applies the same reasoning to his discussion of the trucking industry and to his chapters on plumbers and electricians.

Altogether this is a first-rate book of sound economics that transcends the racial aspects, which are incidental.

CONCENTRATION, MERGERS, AND PUBLIC POLICY
by Yale Brozen
(Macmillan Publishing Co., Inc., 866 Third Avenue New York, N.Y. 10022), 1982
456 pages ■ $29.95 cloth

Reviewed by William H. Peterson

"THE Darwinian jungle is not guaranteed to produce a happy ending. Influencing and corrupting governments may be the only thing conglomerates are better at—as is suggested by the IT&T scandals during the Allende Chile takeover and the Nixon Administration .... The Sherman and Clayton Acts, and most of the antitrust laws have contributed enormously toward improving the degree of competition in our system. All who value social reliance on decentralized markets and economic efficiency should applaud this kind of public intervention, which helps to lessen the imperfections of competition."

So writes Nobel Laureate Paul A. Samuelson in his 10th edition of *Economics*, a widely translated college textbook which since 1948 has molded the thinking of literally millions of students, many of them now in high places, around the globe.

The Samuelson evaluation of antitrust is, sadly, conventional wisdom. And with America much in need of guidance and fundamental public policy reform to lead us out of the morass of interventionism, it is refreshing to welcome Yale Brozen's *Concentration, Mergers, and Public Policy,* a carefully researched, even-handed book which deals a body blow to antitrust theory and practice.

One pet antitrust dogma, for example, is concentration. Concentration, also known as oligopoly, reflects fewness of sellers. It also reflects bigness. Fewness and bigness, however, supposedly represent "restraint of trade" and "predatory power," against which government agencies, chiefly the Federal Trade Commission and the Antitrust Division of the Justice Department, have spent a lot of money and energy. And these antitrusters have much to show for it: They have won a host of major antitrust suits, club-

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bing down bigness again and again.

The question is: Who won what? Certainly not the American consumer who's seen competition not thus enhanced but, rather, set back. The Brozen work raises more interesting questions: Do large firms in a concentrated industry (frequently defined as four or fewer firms having 50% or more of the market share) really have the market power attributed to them? Are big corporations—the *Fortune* 500—less competitive and productive than smaller firms? Is the long-held animus of American government toward Big Business compatible with the optimum choices confronting the nation in the 1980's? In particular, does antitrust really aid the search for solutions to the problems of growth, productivity, the efficient utilization of resources—of getting the country moving again? Answers, as clearly implied in this volume: No.

Brozen's evidence is overwhelming. And notwithstanding scores if not hundreds of muckrakers like Ida Tarbell and Lincoln Steffens and innumerable economist-disciples of Joan Robinson (*The Economics of Imperfect Competition*) and Edward Chamberlain (*The Theory of Monopolistic Competition*), the evidence goes all the way back to the time of the passage of the Sherman Antitrust Act in 1890.

For example, that evil trust, Standard Oil, had an 88% market share in 1899 but this share was whittled down by competition to 67% in 1909, two years before the Supreme Court dismembered John D. Rockefeller's giant. Again, American Sugar Refining's 95% market share in 1892 was down to 49% in 1907 and to 28% in 1917. International Paper's 66% share in 1898 slipped to 30% in 1911 and 24% in 1928. And U. S. Steel's 66% share in 1901 fell to 33% in 1934 to 24% in 1968 and is down to around 19% today.

The steel market—once considered the exclusive province of steel giants—is itself a lesson in the undoing of antitrust mythology. Today the steel market, which is of course a far larger market than it was in 1901, is besieged by small streamlined "minimills" such as Nucor in Charlotte, North Carolina and Florida Steel in Tampa, by Japanese, Korean and European steel producers, and by, perhaps most interesting of all, producers of substitute materials such as aluminum, copper, magnesium, glass, plastics, concrete (reinforced and prestressed), plywood and even impregnated cardboard.

Fortunately the lessons of multifaceted competition are beginning to sink in here and there. In early 1982, for example, Assistant Attorney General for Antitrust William Baxter withdrew the Justice Department's case against IBM. The lawsuit, which had dragged through the

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courts for more than a decade, has cost the taxpayers millions of dollars and untold headaches for IBM, whose only crime was, apparently, bigness.

Concludes Yale Brozen in this perceptive work:

"To attack any firm at any time for expanding capacity stands antitrust on its head. To attack proposed conglomerate mergers on the ground that the capacity of the acquisition will be expanded by the acquiring firm is to attack the essence of what makes some conglomerate mergers desirable. Such attacks restrain trade. They are, themselves, a violation of the spirit of the antitrust laws. It is entry that destroys undetected collusion and polices entrepreneurial or managerial sloth. Entry barriers are the appropriate arena for antitrust action. The antitrust agencies are to be commended for beginning action in this arena in the last decade. Again, however, there is much confusion in the agencies and in the courts (and among economists) as to what constitutes a barrier. The only significant barriers are those administered by regulatory agencies and licensing authorities. Praise is due the antitrust agencies for beginning to move on these."

Dr. Peterson is the director of the Center for Economic Education and the Scott L. Probasco Jr. Professor of Free Enterprise at the University of Tennessee at Chattanooga.

GOVERNMENT'S MONEY MONOPOLY

Henry Mark Holzer, Editor
(Books in Focus, P. O. Box 3481, Grand Central Station, New York, N.Y. 10163)
227 Pages ■ $19.95

Reviewed by John A. Sparks

EDITOR HOLZER has assembled several of the most interesting articles, cases and statements to be found on law and money and woven them together in a new book that should be in any library which has an economics or constitutional history collection.

The book begins by including parts of a law journal article written by P. J. Eder on monetary debasements in early times starting with Solon's devaluation of 594 B.C. Eder moves forward quickly to English-medieval law where he emphasizes that the sovereign's prerogatives over money were limited to coinage, seigniorage (minting fee), and the fixing of denominations of English and foreign coin according to the value of the money metal contained in them. Eder emphasizes that no *general* power of debasement existed in the sovereign, although one case, the *Case of Mixed Moneys,* seems to have allowed the sovereign to devalue the currency. However, Eder points out that the forced use of base coins

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(mixed monies) referred to by this one case was a temporary war measure used against Ireland by Elizabeth.

Government's Money Monopoly next turns to the thirteen colonies and provides a good introduction to commodity money, foreign (Spanish or Mexican) metallic coins, and paper money. Then another short but insightful chapter appears on the subject of the intention of the Constitutional Convention regarding the emission of bills of credit. The author concludes, from Madison's notes, that while there was grave fear of a paper money issuance with a legal tender requirement, nevertheless there was also a reluctance to completely prohibit the federal government from issuing paper money. Later, this ambiguity plus a broad interpretation of the coinage powers, and an expansive view of what was "necessary and proper" allowed Congress to take and keep nearly plenary monetary powers.

It is to the matter of a central bank that editor Holzer now directs the reader. He properly includes both Jefferson's opinion against the First Bank of the U.S. and Hamilton's defense of it. Their views are well worth reading. Unfortunately, John Marshall and the Supreme Court later followed the reasoning of Hamilton in upholding the chartering of the Second Bank of the U.S. in *McCulloch v. Maryland.*

The important cases of the Civil War era, the *Legal Tender Cases* are included and discussed. By reproducing the text of these decisions, Holzer performs a valuable service. Most constitutional law students find that their law casebooks refer to these critical cases by a mere passing note. They are usually regarded as cases showing the laudable rush toward plenary governmental power over money. The first Legal Tender Case, *Hepburn vs. Griswold,* still contains some of the best constitutional analysis and common sense about sound money ever found in a Supreme Court opinion. Ironically, the opinion repudiating the legal tender notes was written by Salmon P. Chase the very man, who as Secretary of the Treasury, oversaw the issuance of the notes.

Other materials are included which will help the defender of sound money obtain a better understanding of the politics behind the gradual creation of fiat money issues by a central bank. Holzer's collection and notes tell the story clearly.

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FEBRUARY 1983

George Washington on Liberty and Order ..... Clarence B. Carson 67

The World Debt Crisis..... Hans F. Sennholz 76

The Armor of Saul ..... John K. Williams 84

Market Prices vs. Communist Commands ..... Henry Hazlitt 93

Unions and Violence..... Morgan O. Reynolds 98

The Price of Education..... Ernest G. Ross 107

Thinking About Freedom ..... Robert LeFevre 113

BOOKS:

The State Against Blacks ..... John Chamberlain 122

Other Books 125

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